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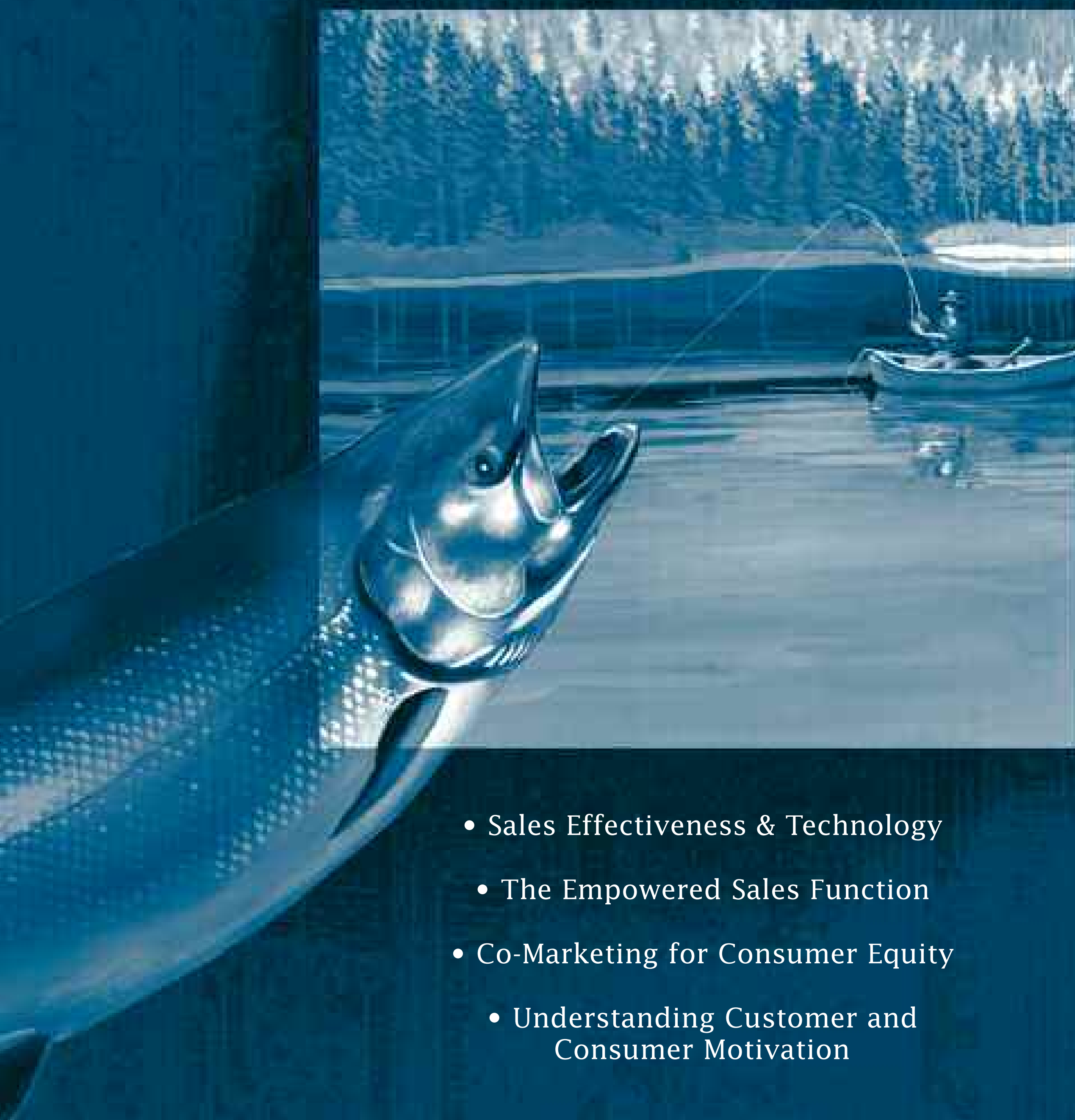
viewpoint

ISSUE TWELVE

ENHANCING CUSTOMER VALUE AND SATISFACTION



- Sales Effectiveness & Technology
- The Empowered Sales Function
- Co-Marketing for Consumer Equity
- Understanding Customer and Consumer Motivation

Dechert-Hampe & Company is a Management Consulting firm specializing in integrated Sales, Marketing and Logisitics Solutions and Services. Our service capabilities include:

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- Communications
- Organization Effectiveness and Development
- Systems Solutions Integration

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The Viewpoint is designed and produced by MossWarner; a national firm that empowers sales organizations by delivering the content and tools they need throughout the entire selling process. We focus on making all sales resources and touchpoints more productive, better equipped, and readily capable of delivering relevant brand messages to individual customers. For more information, visit our web site www.mosswarner.com or contact:

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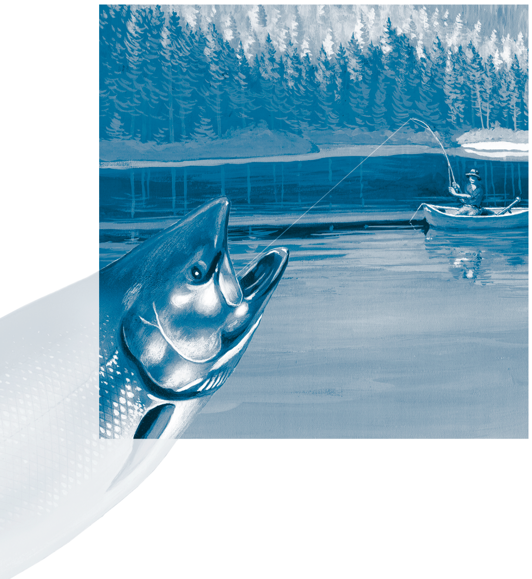
Optimizing Sales and Marketing to Improve Customer Value



Using technology to increase sales efficiency by reducing costs is not enough, as companies ultimately win or lose business based on how they meet the needs of their customers and prospects. This issue of* Viewpoint *discusses how Sales Effectiveness Technology, Sales Force Empowerment, Collaborative Consumer Equity Development and Emotion-Based Market Research all can help to enhance customer value and satisfaction, and ultimately deliver incremental sales volume and profit.

Contents:

Tools of the Trade:

To better serve our readers, we welcome your comments about ***Viewpoint*** as well as any suggestions for topics you would like to see addressed. Please contact us at 949.429.1999 or viewpoint@dechert-hampe.com.

Still Dreaming About Tomorrow? It'll Soon Be Here!

BY LEE NICHOLS

THE NEW TEST FOR PRODUCTIVITY IN BUSINESS WILL BE HOW WELL THE EXTENDED ENTERPRISE CONNECTS COMMUNICATIONS AND COLLABORATES.

In recent years, productivity gains for U.S. manufacturers have been driven by consistent investment in information and technology, and until recently we've realized dramatic economic growth without inflation as a result. As CPG companies embark upon the process of technologically networking suppliers and customers, automating manual demand fulfillment processes (like order processing, inventory/warehouse management, and delivery), and extending the enterprise with customer facing applications, the next great opportunity for economic growth will be in sight.

Introduction

Since the late 1970's, CPG sales executives have been talking about the next revolution in sales productivity – getting more output from the same investment in capital and labor. Certainly strides have been made to reduce sales costs through initiatives such as sales force automation and the move toward third party service providers. Some companies have increased output through initiatives like fact based selling, category management and account teams. Numerous structural and operational changes have been required by a rapidly consolidating customer base. Generally though, sales technologies implemented in the 80's and 90's have been focused on automating routine sales tasks, and increasing the efficiency of communications and reporting.

Thanks to new technologies and the Internet, though, we will likely see more change take place over the next 36 months in the sales function than any of us have seen in our careers. And by many estimates, a full two-thirds or more of today's CPG companies could find themselves at a competitive disadvantage by 2003. Yesterday's focus on using technology to increase sales efficiency by reducing costs is not enough for tomorrow. The next generation sales tools will be focused on sales effectiveness – increasing profitability and gaining a competitive advantage through value analysis, knowledge management, marketing intelligence, collaboration, and customized solutions.

A Preview of Tomorrow

Imagine, for example, competing against a company where 90% of the orders come in over the Internet fully synchronized by item and price for a cost of less than $3 each and few, if any, are ever touched by human hands. Imagine competition that has successfully built a demand-driven supply chain. POS data would be freely shared to drive Collaborative Planning, Forecasting and Replenishment (CPFR). Advanced Planning and Scheduling Systems (APS), advanced Warehouse Management Systems (WMS), and real time linkages to transportation carriers (TMS) and raw material suppliers would provide an integrated, seamless supply chain. This will produce:

ABOUT THE AUTHOR Lee Nichols is President of Dechert-Hampe & Company in our San Juan Capistrano, California office. He is responsible for overall corporate management, long-term corporate strategy and overseeing the company's network of consultants and clients. Before joining DHC, Nichols was Executive Vice President and co-founder of NEO (The Northeastern Organization, Inc.) and director of Glendinning Associates.

- A cash to cash cycle time which is 20 days or less
- A order to cash cycle time of five days
- “Perfect Orders,” which reduce deductions by 90% from 2000 levels
- Manufacturer and retailer pipeline inventory reductions of 15% over 2000 levels, with store-level out of stocks at 5% or better
- A 3% improvement in sales general and administrative costs
- A 9% improvement in cost of goods
- A 97% on time and complete customer service rate, and the ability for customers to track their orders and inventory availability in real time
- Efficient logistics planning, which reduces delivery times to less than two hours and eliminates logistics fines and fees
- Account teams equipped with tools for category analysis and visualization enable customer collaboration on merchandising, assortment/promotion planning, execution and evaluation in real time
- Other tools enable the account teams to share information, conduct scenario analysis, collaborate on issue management and develop integrated account plans on a multi-regional and even global basis.
- Account teams that are enabled through information and technology to develop and implement customized solutions with full visibility to all sales controllable costs that drive customer profitability.
- Web enabled, collaborative new product development with cross-functional teams, suppliers, and often customers on a global basis that reduces speed to market by 60%, and enables raw material suppliers to plan their own manufacturing requirements at the same time

Future shock? Not really. A process that will take decades to complete? Don’t bet on it. All of it is possible today thanks to information technology and the Internet, and a number of major corporations are working on implementing all or most of these types of processes.

Key Drivers of Change

Why the rush to reengineer and technologically enable the sales organization? There are a couple of reasons that first come to mind:

The Economics

Most experts believe that using new technologies (like CPFR, APS, WMS and TMS integrated with core ERP systems) to streamline the cash to cash inventory, production planning and fulfillment process will result in huge cash generating inventory reductions in raw materials, finished goods and retail inventories. At the same time, store-level out of stocks will be reduced by two-thirds or more resulting in increased sales.

Sales and customer controllable costs (which include items like trade promotion, customer specific marketing, unsaleables, assessorials, listing fees retail coverage and other “cost to serve” expenses) will also become a prime
target for cost reduction or increased throughput. Reducing the substantial and often hidden costs of administrative efforts (such as clearing deductions) will enable manufacturers and their customers to focus on the drivers of operational and marketing effectiveness and efficiency.

As general managers search for ways to increase profits without raising prices, a two percent reduction in sales controllable costs or a 15% reduction in finished goods inventory, without sacrificing sales volume, frees up significant resources for brand or new product development, manufacturing flexibility, and high ROI technology investments.

Sales technology of the 80’s and 90’s was focused on automating routine sales tasks and increasing communication and reporting efficiency.

The Customers

Information and technology investments by the 25 or so customers that represent as much as 80% of a CPG manufacturers business will result in more informed buyers with real time store and consumer information at their fingertips, and the tools to rapidly evaluate business alternatives. They will want to interact with our equally sophisticated sales organization.

Escalating demands from Global retailers like Wal-Mart, Carrefour and Ahold will place pressure on manufacturers for consistent price structures and increase the pressure for support resources, supply chain efficiency enhancements and customized solutions.

For retailers to successfully “extend” their enterprise they must align their technologies with those of their suppliers to gain efficiencies in administration and store level operations and warehouse inventory reductions. The creation of the new retail marketplaces like the World Wide Retail Exchange and

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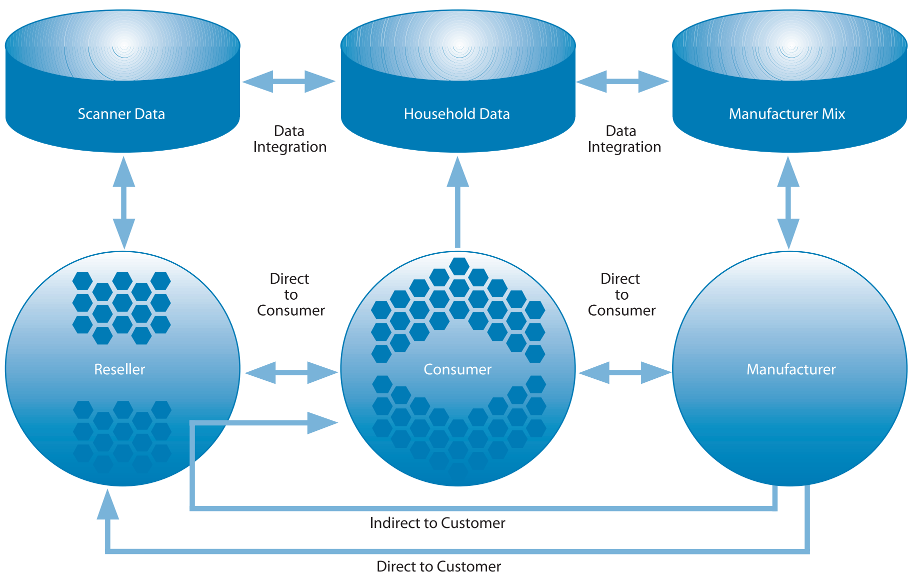
Figure 1:
COLLABORATIVE MARKETING PROCESS



the Global Net Exchange is one step in this direction and rapidly evolving pilot initiatives like VICS CPFR, data synchronization, and scan-based trading are others.

Reinventing the Sales Organization

The new test for productivity in business will be how well the extended enterprise connects, communicates and collaborates. Realizing the economic benefits of supply chain excellence will require cross-functional and intercompany integration. Central to achieving these efficiencies is the sales organization and its ability to reinvent its role in the future operations of the enterprise.

The Expanded Role of Sales in Collaborative Marketing

The role of the sales organization has changed from one that is focused on sales at any cost, product and program feature/benefit selling, and delivering the latest period promotion, to one that provides analytic insight and creative business solutions that increase profitability. For the future, the sales organization's role in collaborative marketing is key (Figure 1).

The medium for the brand message has become more and more fragmented, and the retailer – both through their virtual and physical presence – is becoming an important marketing medium for reaching the consumer. At the same time leading retailers are beginning to readdress the top line through their own marketing efforts to generate consistent store traffic and consumer loyalty. Beyond marketing the store as a brand, the retailer is now marketing their own competitive brands in many categories, while at the same time some manufacturers are establishing direct sales links to the consumer via the Internet. Manufacturers and retailers are in many ways competing, yet simultaneously have a pressing need for improved collaboration and operational alignment in order to maximize success.

CPG Sales Organizations must understand a customer's overall and category specific marketing objectives, operational requirements and capabilities, and then develop creative customer specific promotion and co-marketing plans, and in more and more cases customized packs and even products. The success of many brands and their sales organizations in the future will rest on their ability to not just "sell to the retailer," but to "market their brands through the retailer" in a manner which mutually achieves brand and customer objectives. Achieving this for most companies will require a restructuring of the sales & marketing organization and a different relationship with the customer.

Both parties (manufacturer and retailer) have keys to this "lock box" of opportunity. For example, the integration of data (consumer segmentation, causals, household panel, point of sale/off-take, and loyalty data) is critical for operational and marketing collaboration. CPG companies that don't align themselves operationally and collaboratively may find themselves relegated to the status of private label supplier, co-packer or a producer of commodity products.

Knowledge Management: Turn Data into Intellectual Property

The sales game is becoming increasingly knowledge oriented. It's tough to do things like collaborative planning and marketing with poor information. A key challenge facing sales organizations for the future is how do we turn data into information, information into insight and ultimately insight into action.

Most companies have made significant investments in data/information but are not fully leveraging their investment to maximize revenues and profits. At least two factors are at the core of the information management challenge facing most companies:

1. *Not Leveraging Current Information Investment:* Most companies buy lots of data (syndicated data, consumer research, U&A, proprietary studies, etc.). This data is typically purchased for a specific analytic purpose by one functional department who often closely guards access, use and distribution of the information. Today's business leaders need the right information, in the right hands, in the right form at the right time.
2. *High Cost of Current Practice:* Effective decision making generally entails using data and information from multiple sources (i.e., analyzing promotion effectiveness with POS data and promotion spending). The integration of disparate data sources is typically a manual process. This process is generally time-consuming with a resultant high activity cost. Companies without the right information management tools have to spend a significant amount of time and money "crunching numbers" to get the insight needed to make good business decisions. This precludes quick decisions and drives up costs.

Most companies do not have a well-conceived strategy for managing the information so necessary for increasing the productivity of the sales process and ultimately the efficiency of the supply chain.

Requirements for Effective Account Planning

Generally speaking, over the last few years information and technology investments at a number of CPG companies have been focused on ERP installations and Y2K fixes. CPG sales organizations tend to be behind the curve in terms of the types of tools they really need to plan and manage their business with major customers, let alone facilitate an automated collaborative planning environment. Much of the sales automation to date has focused on contact management, territory routing, customer profiling, sales reporting, communications, digital publishing and other routine sales tasks. The real need today is for more strategic, complex and analytically rigorous planning, account and category management tools.

Consider for a moment that over 75% of the Food, Drug and Mass Merchandiser All Commodity Volume (ACV) is controlled by 25 customers. Wal-Mart alone may represent as much as 18% of a typical CPG Manufacturers sales volume. Other major customers like Kroger, Albertson's, Kmart, Target, Safeway, Ahold and CVS, although smaller, still represent perhaps four to ten percent each of a manufacturers business. This means that today's "Top 100 Advertiser" account team may well be responsible for managing a business through one of these customers that ranges from $100 million to $3 billion or more. Most account teams/managers aren't fully equipped with the types of tools they need to plan and manage businesses of this complexity or importance.

Retailers must align their technology with that of their suppliers to successfully extend their enterprise.

An effective account-planning tool must have the capability to handle large amounts of data and complex calculations. Key features would be the ability to plan for:

- A broad selection of products to be sold
- The price and potentially a number of promotion options at the item or brand family level
- The base volume at the item or brand family level
- Incremental volume driven by promotional activities
- Promotional spending in support of the activities

"Still Dreaming About Tomorrow? It'll Soon Be Here!" by Lee Nichols, President of Dechert-Hampe & Company, originally appeared earlier this year in Achieving Supply Chain Excellence Through Technology (ASCET) Volume 3.

The ASCET Project, sponsored by Accenture and published by Montgomery Research, is an investigation of how companies can achieve supply chain excellence through technology. Initiated over two (2) years ago, the project continues to demonstrate a collaborative model of thought leadership by bringing together the ideas and knowledge of leading practitioners, academics, software providers, and industry leaders.

Dechert-Hampe & Company is a featured contributor to both ASCET Volume 2 and Volume 3, which can be accessed at www.ascet.com.

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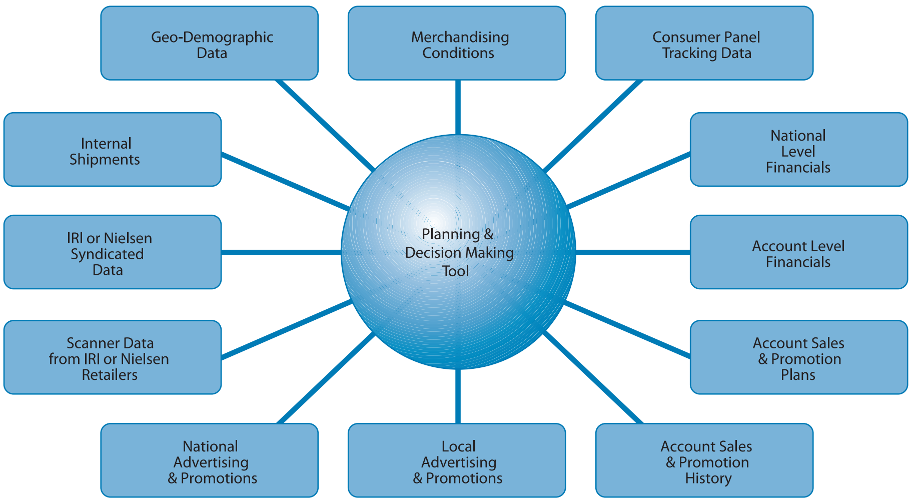
Figure 2:
THE CHALLENGE FOR DATA INTEGRATION



- Base, incremental, event and non-event volume for both shipments and shelf off take

The tool must also have the flexibility to handle a diverse set of activities and marketing approaches. Planning is increasingly an account specific exercise, so tools must allow users to easily adapt plans to their customer's way of doing business.

The tools should provide the users with suggested base volume and promotional lifts by accepting data feeds from a variety of sources, including shipment data, syndicated off-take data or customer specific POS data. It should easily allow users to override suggested values and have the capability of being used collaboratively with the customer. Because of the complexity of managing many of today's sometimes multidivisional customers, tools must also facilitate interactive collaboration between geographically disperse account team members and brokers.

Of course, the real prize with any account planning system is the ability for management to get a comprehensive view of their organization's future sales, marketing/promotion activity and demand plans at all relevant levels. To completely realize the value of such a planning tool, integration with other key business activities is required. This means integration or linkage to other activities such as post promotion evaluation and demand planning to both improve the effectiveness of future planning and improve the overall pipeline efficiency of the organization.

Account and Sales Management Decision Tools

In addition to account planning, a challenge facing most CPG marketing and sales managers is integrating multiple sources of market and customer information. A typical CPG manager has the following information sources (Figure 2).

In order to increase profits in a very demanding business, managers at all levels need to be able to view and analyze information from all sources in one tool. Scorecarding techniques can be used to quickly view overall performance (sales and profits) along with the various marketing and sales "levers" that drive that performance.

Some companies have attempted to integrate these information sources using Enterprise Resource Planning (ERP) technology with varying levels of success. The cost is high, the implementation time is long and the flexibility is minimal. With recent advances in PC hardware you can now get the computing power of an old mainframe in a four-pound box. Most of these laptops are underutilized. PC software now has the capability of seamlessly integrating data from many sources, and the Internet and broad band technology will speed the process.

Problems that present themselves in isolation can be better understood with data integration. Here are some examples:

- A brand that is declining by 15% in a food account in a major market appears to present a problem. With integration of Mass Merchandiser store-level scanning data, it may turn out that the loss has been more than made up for by increases in the Mass Merchandiser channel in that same market.
- A brand in another market is also declining. The integrated data indicates that sales-controllable activity – trade promotion, distribution, etc. is up, but base sales are declining. Further review shows that local

advertising delivery has been cut in half versus a year ago.

- One CPG company uses a tool that integrates diverse data to create key account scorecards across 30+ key sales pressure points. The tool enables major account managers and senior sales and marketing managers to get real time answers at their desktops, eliminating the prior need to contact various personnel and manually integrate data. Review time was cut from weeks to minutes!

Other Considerations

There are at least two other factors from our experience that are equally important in the successful implementation of these systems:

Process and Change Management

The technology needs to match the planning, forecasting, order administration, account financial management and other sales and cross functional processes. To be successful, these processes need to be thoroughly studied and fully documented with the active assistance of the user group. Future integrated customer planning tools will significantly "raise the bar" in terms of planning sophistication and importance. If the sales people are not thoroughly involved in the end-to-end implementation, usage will be less than optimum and the economic benefits to the supply chain will be lost.

Training

The training required for sales technology implementations is often underestimated. Advanced sales planning and ultimately CPFR will require considerable behavioral change for the entire sales organization and the job of the Account Manager in particular. Training on system functionality is required of course, but even more important is the job specific training which answers questions like: "How has my job changed?" "How do I use these new tools to perform my new job successfully?" "What are the day-to-day benefits to me?"

Conclusion

If we have learned anything from the ERP era, it is that getting information, technology, process and people to work together is where the real prize lies. Past experiences have taught us that time paced, multi-phased implementations are more effective and less disruptive to the business. As the pace accelerates and more and more companies offer customer-facing applications, confusion abounds. For most organizations, focus should be placed on:

- Collaborative marketing
- Knowledge management and intelligence gathering
- Integrated account planning, financial management and CPFR
- Analytical processing and decision making

The "good news" is – sales executives can learn valuable lessons from past experience. The "bad news" is – time is growing short. The key question for today's sales executive is: "Are we keeping up, gaining ground or setting the pace?" V

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Customer Planning and Sales Management Tools

Are you setting the pace?
If you would like your organization to do more than just "keep up" or play "catch up" with your competitors, Dechert-Hampe & Company has the planning and management tools that can help to enable your Sales and Marketing organizations. Today's organizations are required to be proficient in:

- Collaborative Marketing
- Knowledge Management
- Integrated Account Planning
- Analytical Processing and Decision Making

Dechert-Hampe & Company knows how to help organizations reinvent themselves and get technology, processes and people to work together and succeed. Below are a few of Dechert-Hampe & Company's "sales enablers."

Customer and Market Opportunity Analyzer
Customer and Market Opportunity Analyzer is a PC-based application that will prioritize business opportunities, using POS sales and in-store merchandising data.

Customers are ranked based on business opportunity derived from an analysis of sales, profit, and margin which allows manufacturers to focus sales resources on customers that present the greatest opportunity. By using an extensive bank of causal factors to hypothesize business trends, it can save users the time currently spent analyzing raw data to determine causality.

Sales and Marketing staffs can now focus spending against the activities that have the biggest impact. Results can be forecast as the tool has drill-down functionality to determine the impact on the overall business. In addition, business trends due to Sales Force controllable factors are separated from non-controllable factors. In this way, Sales can quickly determine which causal factors they can address and which ones they can't.

Promotion Planner and Evaluator
Promotion Planner and Evaluator is a PC-based application that can help to improve trade promotion efficiency and effectiveness. It does this by utilizing item level detailed sales data to model promotion planning and evaluation.

Forecast accuracy is improved through weekly planning, by forecasting base sales separate from incremental sales, and through use of advanced statistical forecasting techniques. Users can compare planned event performance with actual performance. Plans can also be compared to actual history as a reality check. Users are then able to modify event plans to improve profitablility, effectiveness and efficiency. A planning grid provides a graphical representation of the promotion plan.

Major Account Planner
Major Account Planner (MAP) is a PC-based application that provides bottom-up, account specific Sales and Promotion Planning. A preliminary activity set is created and made available to field sales and/or executive management for direct input, modification or aggregation via the Web.

The Planner provides field Sales a baseline for building a promotional plan, customized for their account which saves the time and expense of creating a base plan from scratch. The bottom-up plan building gives visibility to individual item, pack and ultimately account contributions.

Improved forecast accuracy for promotion events is delivered through advanced statistical techniques.

Account plan data is easily accessible for use in other enterprise resource applications as needed. Account plans can also be aggregated at any level, allowing management to view planned volume, spending and activities for the entire business, or at lower levels such as brand or region.

Each of the tools described are intended to be customized for each organization's particular business. To realize the full value of these planning tools, however, integration with other key business activities is required to ultimately improve sales effectiveness and overall pipeline efficiency.

For more information on the Dechert-Hampe & Company Customer Planning and Sales Management Tools, and/or associated implementation, process and change management, and training, contact Dan Graham at 949.429.1999 or dhc-ca@dechert-hampe.com. V

New Challenges In Building CPG Sales Effectiveness

BY BOB MONAGHAN

SALES EFFECTIVENESS WILL DEPEND ON DEMAND SIDE COLLABORATION WITH KEY CUSTOMERS TO DEVELOP NEW BUSINESS FOR BOTH PARTIES.

Increased concentration and competition in the CPG marketplace has driven initiatives aimed to improve the effectiveness of the Sales effort.

We believe the pressure to improve effectiveness will continue to increase and that the next major advance in CPG Sales will take place on the demand side. Sales will become *more effective by focusing on the higher-value activities in the customer interface, activities that are concerned with demand-side business development.* This is because sales "effectiveness" will be driven by the ability of sales organizations to collaborate with key customers to develop new business for both parties. Major retailers are increasingly seeking new solutions to allow them to connect with consumers, drive outlet loyalty and more effectively compete in a challenging marketplace. As a result, we believe greater effectiveness on the demand side of the equation will differentiate manufacturers and lead to greater leverage and influence with customers in the CPG arena.

Senior CPG executives who are not yet concerned with this development should be. The business has become concentrated among a shrinking number of customers who view themselves as marketers that need to be actively involved in consumer demand generation. In the 90's, a manufacturer's supply-side and category management capabilities often determined the influence the manufacturer had with major customers, and these capabilities will continue to be a price of entry to the "customer influence" game. However, going forward, CPG companies will also have to help their customers deal more effectively with the demand side of the equation.

Many CPG companies, in recent years, have invested heavily in improvements in knowledge management, systems and automation to increase the efficiency of their sales organizations. These efforts are vital to the future, and are critical to keeping pace with increasingly sophisticated customers and competitors.

However, while important, we believe these types of improvements alone will not guarantee influence with top customers. Most leading retailers *expect* efficiency in their business relationships with their suppliers. They expect to have an open, clear view of their supply chain and timely, accurate communication links with suppliers. In fact, from our experience, they view these more and more as a cost of doing business rather than differentiating factors. Simply put, supply-side efficiency has become a requirement.

To deliver collaborative business-building solutions to important accounts, the manufacturer's customer interface must be enabled and empowered to identify business opportunities, make decisions and commit significant organizational resources to develop these opportuni-

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New Challenges In Building CPG Sales Effectiveness

Figure 1:
THE EVOLUTION OF THE CUSTOMER INTERFACE IN DEMAND GENERATION

ties. By the "customer interface" we are referring to what has traditionally been called "the sales function."

The issue is that today's account managers and customer team leaders, in many cases, are simply not equipped to operate at this more empowered level. Too many are focused at more tactical levels, and do not have the authority or the resources to develop new demand-side initiatives with their customers. Too much time and effort is wasted going back and forth to headquarters, rather than being spent on genuine business development. In our view, this must dramatically change for CPG companies to maximize the effectiveness and productivity of their customer interface.

It's Time To Empower Demand-Side Business Development With Customers

While the issue is not new, we believe the time has come for a step-function change in the role and responsibilities of those who manage the interface with major CPG customers. And the change will require far more than envisioned in the "sales manager-to-business manager" evolution discussed within the industry for a number of years. We will refer to this customer-interface-management function as "sales" in the balance of this article. However, we are thinking of a much different "sales" than the CPG industry is used to.

The ability to generate new business opportunities has become a customer-specific necessity. This is because major retailers are seeking business solutions that allow them to both capitalize on the power of national brands and leverage their own identity and unique connections with consumers.

In many ways retailers and manufacturers are now competing with each other for the consumer's share of mind. With growing media fragmentation, communicating with consumers in-store is more important than ever. As a result, manufacturers must connect with consumers in-store, in a manner that takes into account and works with the retailer's business approach. Sales is in the best position to understand, identify, and address customer-specific needs and business opportunities, *but only if it is both enabled and empowered to do so.*

We believe the framework in Figure 1 shows the evolution of Sales, on the demand side, from more basic roots years ago in pure "selling" activities, to a role that culminates in business collaboration with key customers. These stages of CPG Customer Management form a continuum; they are not totally distinct, mutually exclusive activity sets. The "boundaries" between stages are flexible. Many organizations' customer-interface management approaches are characterized by aspects of the two stages on either side of the boundary through which the organizations are evolving. This is the nature of evolutionary change. Nevertheless, the nature of the business relationship and the role of Sales in managing it change fundamentally as each stage in the evolution is reached.

Also, this does not suggest that any CPG manufacturer would apply the same customer interface management approach to all of its customers. Naturally, the more sophisticated approaches higher in the pyramid require the application of more resources than the other approaches. Today's environment alleviates this potential problem because of the tremendous customer consolidation in virtually all CPG trade channels. Manufacturers need to bring their "A game" to fewer and fewer customers. That's the good news. The bad news is that manufacturers *must* bring these increasingly sophisticated approaches to the major players to maintain influence with them.

Terms such as account management, business management, customer development and strategic collaboration can be used very differently. We believe there is a need to establish a common language.

Traditional selling represents the historical roots of most CPG sales forces. As the complexity of the customer interface grew, *account management* evolved as the order and financial management activities fell to sales associates, as well as promotion planning and management. *Business/category management* was the next step in the late 80's and early 90's as sales organizations began to respond to increasingly powerful customers. Yet, Sales was still relatively limited in how much it could fundamentally impact pre-set programs or absolute levels of resources committed to individual accounts.

The next two levels, however, are very different, and involve new roles, responsibilities, and capabilities for Sales:

Customer Solutions: In this stage of the evolution, Sales is able to identify and recommend customized business solutions that align more closely with the customer's preferred go-to-market approach. These customization recommendations must demonstrate a balanced understanding of the customer's needs and the manufacturer's capabilities and constraints.

Strategic Development: This ultimate stage of the evolution has Sales working with major customers to develop and implement programs to create and meet new consumer demand. The aim will be to use the *combined power* of the manufacturer's brands and the consumer connectivity of the retail environment to drive *increased consumption.* In addition to a new breed of sales organization, this approach will require manufacturers to be more creative and flexible in their overall management of the business.

Importance of Empowering Sales and How the Business Must Change

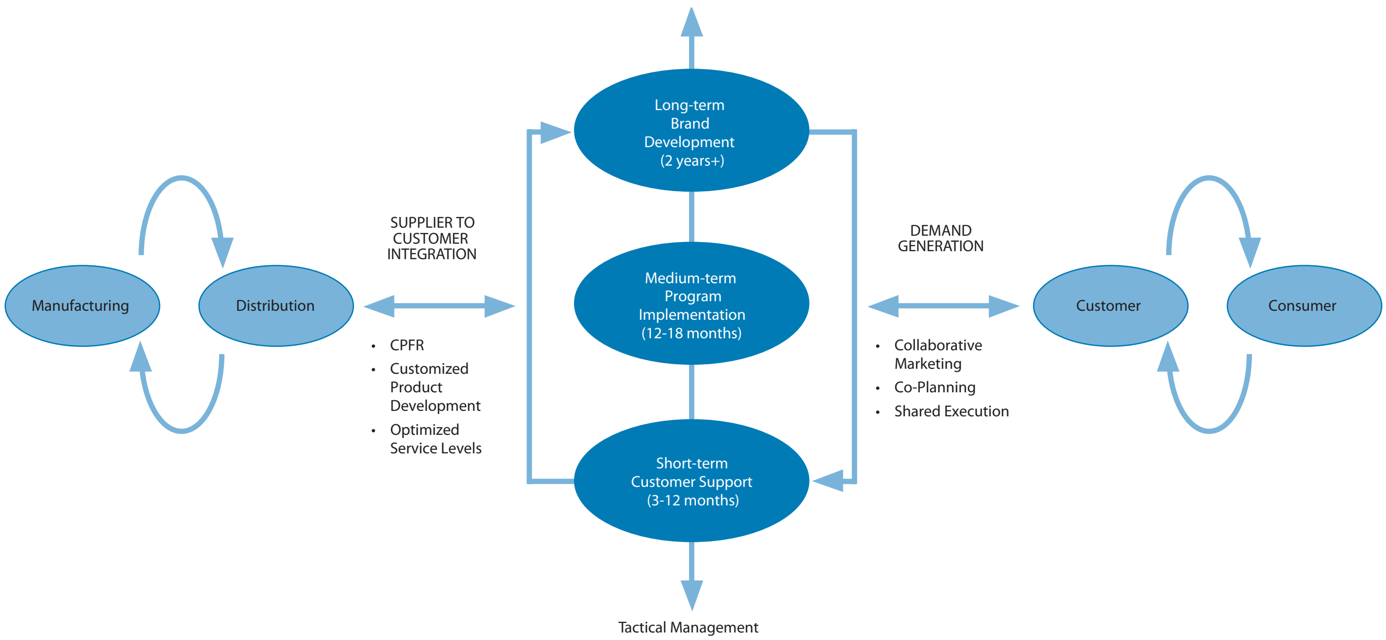
Some retailers are already developing solutions that would be associated with the Strategic Development stage. These initiatives usually aim at making consumer connections by addressing broader consumer need states than can be met by a traditional product category. Examples include Genuardi's home meal replacement center, called "The Kitchen" or Rite Aid's free-standing stores which feature GNC "Live Well" nutrition and wellness centers.

As connecting with consumers in the retail environment becomes an increasingly important part of the overall marketing mix, the consumer franchise development focus within CPG companies must also shift to more emphasis on reaching consumers *through customers* in ways which suit *both* brand and customer marketing objectives. Customer opportunities will vary by account, and businesses should direct levels of support accordingly. This will require a more sophisticated approach to customer investment and a whole new level of involvement by Sales in *developing demand* on a customer-specific basis.

Delivering innovative and unique customer-specific solutions will require that manufacturers develop new working relationships across Operations, Marketing and Sales. Also, the customer interface will have to be redefined. Sales will assume a broader role in determining how the business will connect with consumers in the retail environment and how resources will be allocated cus-

New Challenges In Building CPG Sales Effectiveness

Figure 2:
FUNCTIONAL INTEGRATION FOR BUSINESS DEVELOPMENT



tomer-by-customer to accomplish this. Yet, many manufacturers still largely operate along traditional functional lines. Go-to-market programs are developed in a sequence from Marketing through to promotional groups before being handed off to Sales. We believe transitioning from this largely linear model to a more integrated and customer-focused framework is crucial to bringing the high-value solutions that we see as critical for sales effectiveness in the future.

Figure 2 presents an integrated model for strategic to tactical business development activities.

Three areas are highlighted which support not only demand generation initiatives (shown at the right) but also supply side efficiency efforts (at left):

Long-term Brand Development – Brand development has traditionally been focused on connecting brands directly with consumers and maintaining those connections over the long term. The importance of the retail environment (and, therefore, the retailer) in forging and maintaining these connections has grown, and will continue to do so.

Medium-term Program Implementation – These programs are the vehicles through which manufacturers influence their consumer connections in the retail environment. They are tactics by which consumer connection strategies are implemented. Retailers have always acted as the gatekeepers of the process by which these programs actually make it into retail execution. Their emerging sophistication as marketers is making the gate increasingly difficult to penetrate.

Short-term Customer Support – The final level consists of "delivering the business" over the next 12 months. Even this, the most tactical level of customer interaction, is changing dramatically. The traditional "sales" person needs a much broader business perspective than ever before to manage the complex array of activities that characterize business relationships with today's customers.

Empowering and Enabling Sales
The two supplier functions most responsible for developing and implementing demand-side initiatives are Sales and Marketing. What is needed first and foremost is a significant change in how Marketing and Sales are viewed within most CPG organizations. This is shown in Figure 3, which incor-

porates the long-term to short-term framework of business activities presented in Figure 2.

Traditionally, Marketing has owned long-term business and brand development, as well as the lion's share of medium-term program/promotion initiatives. Meanwhile, Sales' major focus has been on shorter-term execution. The dotted line shows the usual boundaries.

The arrows show how we believe this interface must change to empower customer-specific demand-side development. While the long-term focus of the business will continue to be spearheaded by Marketing, Sales must be heavily involved to bring the customer into the equation. Program development must be far more collaborative than it is today. Meanwhile, Marketing cannot be isolated from front-line customer interaction.

The evolution of a sales organization's staffing and structure to one empowered for customer interface development will depend on a variety of factors. Nevertheless, we think that a fundamental change in the role of Sales in demand generation must occur for companies to optimize their brands' consumer connections.

Figure 3:
EVOLUTION OF COLLABORATION FOR MARKETING & SALES

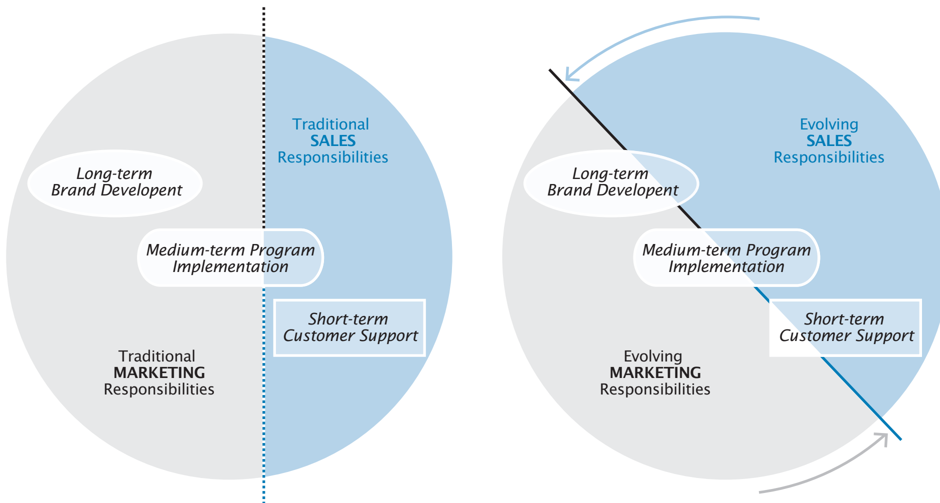


Figure 3A shows the usual boundary between Marketing and Sales

Figure 3B shows a more effective apportionment of responsibilities between Marketing and Sales

Changes in Responsibility and Authority – The new role for Sales will require significantly expanded responsibility and authority including:

- Identifying opportunities to develop the business with major customers and having the responsibility to actively champion initiatives to address them
- Customizing brand and product strategies into initiatives that capitalize on account-specific opportunities and directing resources to bring these to market
- Allocating resources to customers on an elective basis, according to criteria such as the strength of the business relationship and the quality of development opportunities
- Providing direction to management to modify business objectives and strategies based on input from top accounts

Changes in Sales Personnel Profile – Many of the account managers and team leaders in today's CPG companies lack the background and experience needed to effectively handle this new role. While some sales personnel might be identified who can meet these new challenges with appropriate training and experience, many of tomorrow's customer interface managers will be brought into these positions from new sources. These people will need a much broader business perspective than is typically derived from a traditional account management career path. It is important to recognize that, to fulfill the new role, sales people who handle top customers will need to be quite senior in the organization to be effective. However, seniority will not be enough. Significant non-selling experience, some of it obtained at a high organizational level, will be required in some instances.

Changes in Success Metrics – The name of the game in this new customer management arena will be demand generation. While traditional business metrics like volume and profit will continue to be important, new metrics will need to be devised to measure demand-creation on a *customer-specific basis*. If this sounds far-fetched, remember that as recently as 35 years ago, the only way a non-DSD manufacturer could measure volume was through its own shipments to its customers warehouse. Then came SAMI, and product flow to the retail level could be measured. Today, IRI and Nielsen scanner data measure consumer off-take at store level. The focus in the future will be on how big the business with a particular customer *can be*.

Changes in Information Systems and Other Business Processes – Suffice it to say that significant integration of a wide variety of information sources into far more capable support systems is required to enable today's account managers to play an expanded business role. Manufacturers will need to support more empowered customer managers with information systems and improved business processes.

Changes in Overall Go-to-Market Flexibility – Rigid product- brand- and even category-centric programs will lose their impact. The emphasis will be on customer-specific approaches to increasing consumer demand with focus on building the brand franchises of both the retailer and manufacturer. Traditional go-to-market programs will still be part of the marketing mix, but in an increasingly customized way. The prize – and the new yardstick of sales effectiveness – will be the organization's ability to positively impact their business dealings with their customers *on the demand side.* V

Consumer Solutions at Retail – Beyond Category Management

BY BEN BALL

THERE'S A NEW OLD WATCHWORD IN RETAILING … CONSUMERS HAVE THE POWER.

The surge of options competing to meet consumers' needs continues unabated. The "balance of power" debate between manufacturers and retailers has been rendered moot. The power has shifted to the consumer and, as usual, it is retailers who are being impacted first.

Retailers' response to this new competitive environment is an object lesson in history. They are once again seeking to bond with their consumers in a manner reminiscent of turn-of-the-century storekeepers – they want to build a relationship – they want to build equity. This is driven by a need for retailers to gain new competitive advantage, something beyond supply chain efficiencies and category management, and to date it has been underway largely without the involvement of most manufacturers (Figure 1).

Simply put, leading retailers are combining products, services and information in new ways, and across traditional categories, to provide new solutions and create greater equity with their consumers. They are *branding* these solutions, and in so doing are intruding upon the brand connections traditionally enjoyed by manufacturers.

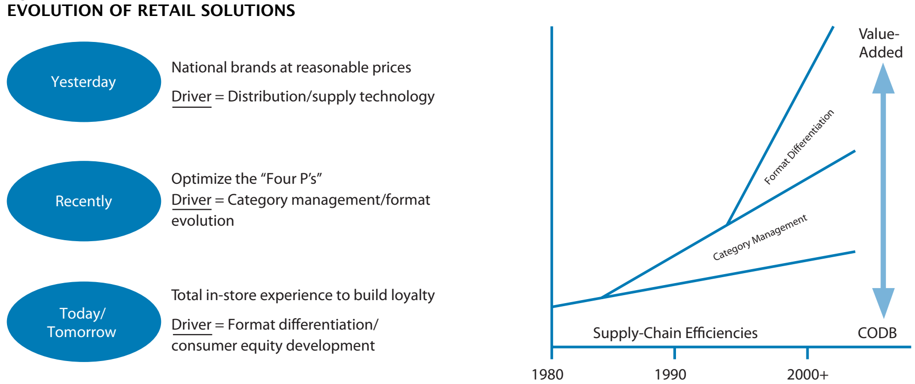
The Implications for Manufacturers are Onerous … but Avoidable

As a result of these new initiatives by retailers, manufacturers run the risk of their brand connections becoming partially or perhaps even totally eclipsed within the store environment. This places manufacturers at increased risk for continuing margin shifts and commoditization.

But manufacturers can influence their own destiny in this new competitive environment. Three things are required.

1. Brands that matter
2. Thought Leadership in Demand Generation
3. Be "the Collaborator of Choice" for retailers

Figure 1:
EVOLUTION OF RETAIL SOLUTIONS



ABOUT THE AUTHOR Ben Ball is Vice President of Dechert-Hampe & Company, based in our Northbrook, Illinois office. Ben works with clients on integrated customer and market development projects, including customer relationship management. Prior to joining Dechert-Hampe, Ben was Vice President, Marketing PepsiCo Foods International.

Consumer Solutions at Retail – Beyond Category Management

Figure 2:
THE NEW CONSUMER EQUITY

Consumer' "Need Sets" Based On Lifestyle Drivers..

But before we discuss what to do, let's understand what it is that retailers are trying to do better.

How Leading Outlets Are Enhancing The Total Retail Experience

Today's consumers increasingly *expect* to receive the basics of good retailing from their preferred outlets. After all, who wants to shop at stores that don't offer convenience, value, selection, good presentation and decent service?

Beyond these, there is an evolving set of criteria by which consumers select their stores of choice. Leading retailers are becoming more savvy *marketers;* finding ways to enhance the consumers' total in-store experience.

These new criteria consist of more qualitative and emotive attributes and connect retailers to consumers as a *brand* at levels above individual products and categories. These attributes include "retail-tainment", affinity of product choices to lifestyle, in-store novelty, shopper education, social interactivity and just plain fun and excitement.

Leading retailers, in fact, are redefining category and brand relationships, from those based on traditional criteria, into new groupings of products and services that better match consumers' broader lifestyle needs. These include maintaining wellness, meal/cooking entertainment, child enrichment, conveniences for busy working couples, or supporting an extended family, among others (Figure 2).

Consider these examples:

- **CVS and Rite Aid** are developing new store concepts and services which provide their shoppers a total wellness approach to healthcare. (Source: Target, CVS, Rite Aid Annual Reports, industry publications)
- **Genuardi's** "The Kitchen" represents a whole new store-within-a-store (SWAS) approach to HMR, while **Hannaford's** latest prototype uses innovative layouts to better unify specialty departments with the center of the store. (Source: Supermarket News)
- Many specialty outlets are creating unique, retail experiences, including **Barnes & Noble**, which provides several in-store innovations to encourage browsing – including a coffee shop and children's reading/story center. **Williams-Sonoma** offers total solutions for the complete kitchen, cooking, and meal entertainment experience. **Bath & Body Works** provides compelling lifestyle affinity merchandising relative to its *own brands* of personal care products, including thematic and image-intensive presentations. (Source: WSL Strategic Retail)
- In specialty grocery, **Gelson's** offers shoppers a unique shopping experience through an extensive variety of little "extras" in-store like live cooking and floral classes and sampling items at food demonstrations. Similarly, **Bristol Farms** offers in-store Wine Tasting and "My Chef" services-take home meals with menus changing daily throughout the month

Why New Retail Connections to Consumers Threaten Manufacturers

These new retail connections create challenges for manufacturers who have historically enjoyed the lion's share of the brand linkages with consumers, and enjoyed the economic benefits.

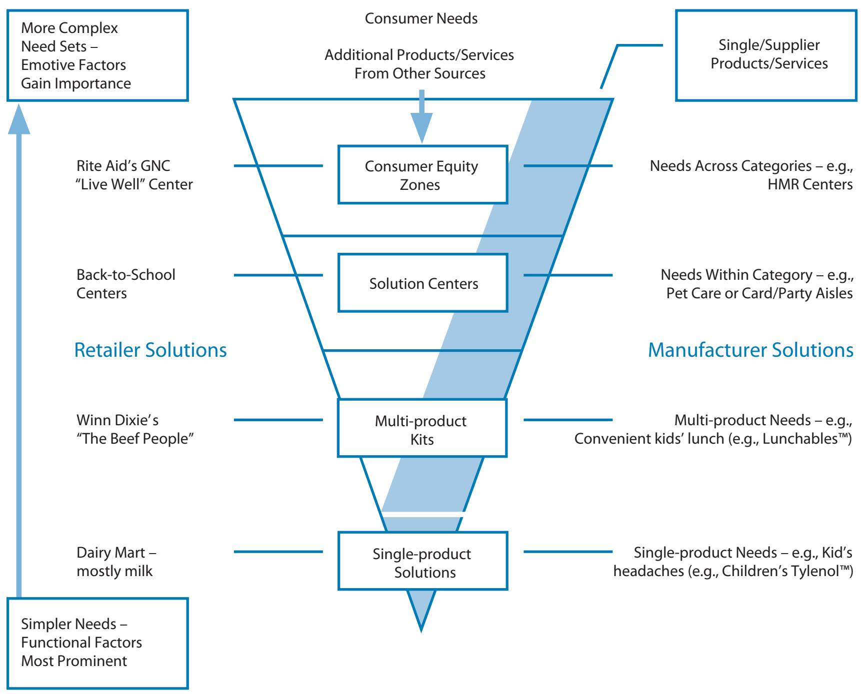
That paradigm is changing as never before, with changing consumers, changing technology and communications, and the growing importance of the store itself in the marketing mix. As retailers increasingly offer new creative solutions, they are making a step change beyond category management and loyalty programs. Manufacturer's brand connections are at risk as retailers are leveraging very different factors, which impact the total in-store experience for consumers.

The upside-down pyramid in Figure 3 presents a framework of solutions. "Solutions" move from simpler needs at the bottom that a single product can address to needs which multi-product kits can fulfill (e.g., Oscar Mayer Lunchables) to those that require a broader range of products within a category to finally, solutions that meet higher-level "need sets" by combining products, services and information across categories. These "equity zones" at the top are often implemented as SWAS areas that also contain distinct brand connections beyond those of the manufacturers' constituent products.

Single manufacturers typically cannot provide all of the products or services for broader solutions, as shown by the darker band at the right. As consumer needs broaden, other elements must be added. This provides retailers the opportunity to step in and connect at higher levels, often addressing important emotional needs. In fact, real brand equity is built and sustained on emotive benefits that others cannot easily replicate.

A true "equity zone" assembles products/services from multiple categories that are not traditionally grouped, addresses a major need state on emotive as well as functional levels, provides compelling affinities/connections with important lifestyle needs, and is implemented in a clearly identifiable format (often a SWAS) that has brand linkages beyond its components.

Figure 3:
HIERARCHY OF CONSUMER SOLUTIONS



Examples in the Marketplace

Examples of new solutions are becoming more evident, and run the gamut from combining products into new groupings to developing genuine equity zones. Manufacturers are reinforcing their brand connections while retailers are developing new consumer relationships:

- **New Retail Brand to Lifestyle Connections in Rite Aid** – Rite Aid has developed a strategic alliance with General Nutrition Centers to create an innovative SWAS featuring a wide array of nutrition and wellness products, services and information under the banner of GNC "Live Well."
- **Reinforcing/Expanding the Manufacturer's Brand in Supermarkets** – Hallmark has taken charge of a number of supermarket's greeting card aisles, turning them into card and party solutions called "Hallmark Expressions."

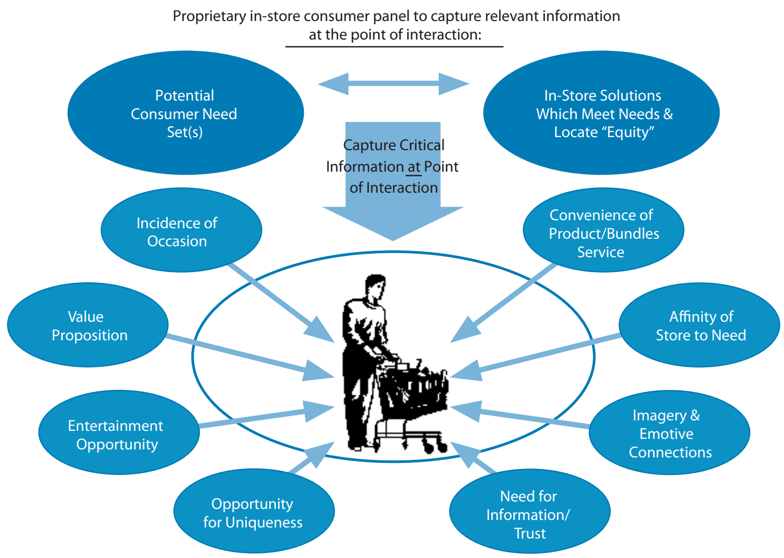
The Challenge for Manufacturers

We are not predicting that every major retailer is about to turn the entire store into a series of equity zones. Nevertheless, this trend toward solutions marketing by retailers is growing. It threatens to intrude upon the brand space traditionally enjoyed by manufacturers.

As a result, we believe manufacturers should choose to proactively collaborate with top customers to develop new and innovative connections to consumers. These unique solutions will defend their brand space while at the same time meeting the customer's objectives for competitive differentiation.

Consumer Solutions at Retail – Beyond Category Management

Figure 4:
RETAIL IMPACT MAPPING™



Manufacturers must evolve their marketing, trade relations and sales activities, to increase capabilities beyond today's "category management", to what we term the *"collaborative consumer equity development"* of tomorrow.

To stay in the game, we believe manufacturers must bring new value. Specifically, manufacturers need…

- **To build brands that matter,** brands that stand up to our definition of a "power brand" … a brand for which the consumer will go to another store to purchase the category if that brand is not available.
- **To commit to true thought leadership in demand generation,** developing strategic solutions against the top business-building opportunities with major customers.
- **To provide a workable process** by which account managers and teams can address the entire spectrum of the customer relationship in a way that makes the manufacturer a "preferred collaborator" for retailers. This is essential to success.

To generate this added value, manufacturers must identify new ways to build brand and consumer equity at retail, *within the context of their product/service offerings.* New approaches are just beginning to be explored and defined. There is an opportunity for leading-edge manufacturers to bring a new "science" to this process. Those that do so successfully will have a competitive edge.

How Manufacturers Can Start Getting Ready for the Future – Today

The heart of the process is being able to hypothesize, define, measure and then implement specific retail solutions, which differentiate the customer and build equity with consumers. This will not be easy. It will require mapping "equity opportunities" in stores across attitudinal as well as behavioral dimensions. This means new research and measurement approaches.

Foremost among these are efficient, consumer-based techniques which identify new retail opportunities for in-store solutions. DHC has developed a technique we call "Retail Impact Mapping™" through which manageable numbers of trained consumers can identify opportunities for building new solutions *at the point of interaction.* (Figure 4). This can quickly lead to either new approaches for testing, or solutions which clients can implement with top customers. The important competitive advantage for manufacturers is that this technique allows them to proactively develop and test approaches that will deliver on the promise of "Thought Leadership in Demand Generation."

To help manufacturers fulfill on the third requirement, becoming the retailer's "Collaborator of Choice"; DHC assists manufacturers through a 7-step proprietary process. In addition to Retail Impact Mapping, this process includes developing a complete understanding of client objectives/strategies to guide business development, an in-depth Customer Development Map built off of DHC's proprietary Customer Development Model (Figure 5), identification of specific customer solution opportunities, business case analysis, testing, rollout and strategic customer planning. *Note: Further information on DHC's approaches in this new and exciting area can be obtained by contacting Ben Ball at 847.559.0490 or dhc-il@dechert-hampe.com.*

Other Elements of Success

We encourage our clients to also recognize that focus areas in the business need to be created relative to this new consumer equity knowledge generation, management and application. Improved collaboration will be needed on research and program development activities between marketing, market research, trade development and sales.

In addition, manufacturers may find it necessary to consider forming strategic partnerships with companies with complementary products, to leverage new solutions with top customers.

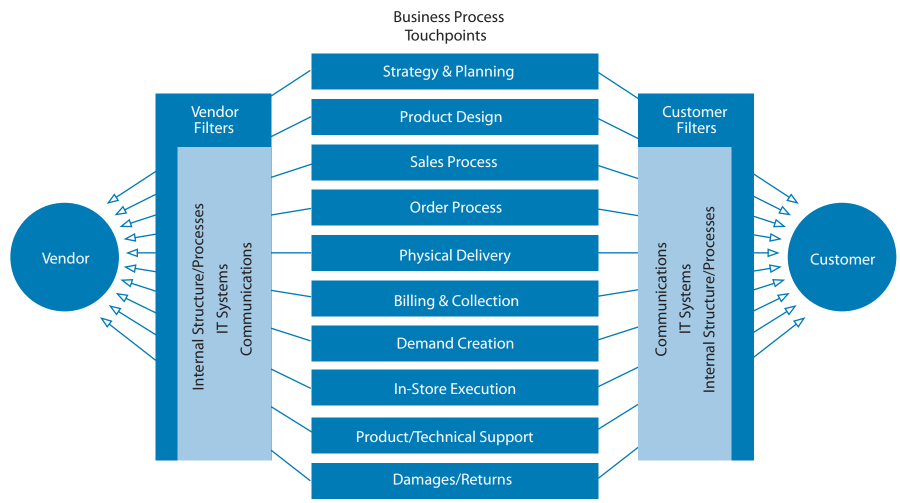
We believe manufacturers who act quickly to capitalize on building new equities with their top customers can reap impressive rewards. However, we believe the opportunities are finite, and the clock is ticking….

Some Questions For Our Readers

Listed below are some questions manufacturers can use to start thinking through the ideas presented in this article:

- Do you view your business today as more product focused, or do you seek to position your products/services as solutions to meet broader sets of consumer needs or customer equity development needs? Why is this?
- Do you perceive that your brands are coming under increased competitive pressure with certain retailers who are also seeking to establish their own brand connections with consumers in the categories in which you compete? Why or why not?
- Have you considered or actively pursued co-branding collaborations as part of your business strategy with top customers? Why or why not?

Figure 5:
DHC CUSTOMER DEVELOPMENT MODEL



- Do you have a process to identify strategic business development opportunities with your top customers? How do you identify these? What process do you have to pursue these?

Dechert-Hampe & Company would welcome hearing from you if you would like to discuss these issues and the resulting implications for your business. V

INFO AND INSIGHTS

New Considerations for Measuring CRM Success

The true ROI of a CRM implementation is not readily apparent, as there are many variables.

On the cost side, quality knows no dollar amount. To protect against overspending, organizations must prioritize their top concerns and understand how and where they can best drive returns to significantly impact the bottom line. Some experts even go so far as to recommend abandoning enterprise-wide solutions for applications that are focused more on the individual components of a business. For example, if a company's top priority is automation of its sales force, that doesn't always necessitate integration of legacy systems, streamlined customer databases or support for multiple selling channels as well. Companies need to be cognizant of the marketing dollars that software companies spend, and not be oversold on un-needed bells and whistles.

Then again, training and change management costs should not be ignored or understated. Cutting costs up front here can result later in employee turnover and resistance to change, which can end up costing even more in the long run.

On the return side, less tangible benchmarks must be considered alongside the obvious. Reduced costs and greater efficiencies are easily measured, but improved customer retention and loyalty are often overlooked. The inability to establish success criteria that takes a company's entire operation into consideration can lead to misguided assumptions of failure. Definitions should be broadened to also recognize the benefits of things like strong vendor relations and an eager sales force.

Source: *"It's Payback Time Should You Gamble on CRM?"* By Cindy Waxer, SAM Magazine July/August 2001

Building "MegaBrands" in the New Retail Reality

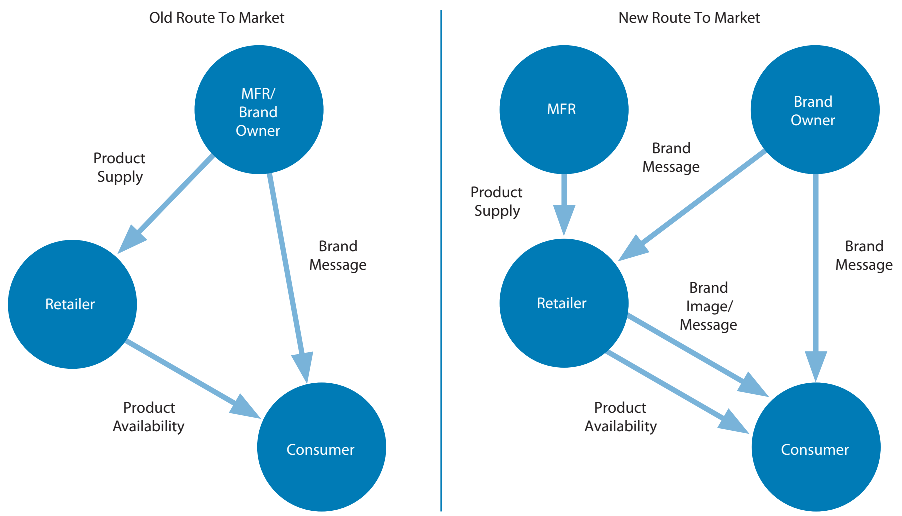
BY BEN BALL WITH LEWIS A. BEREY

Brands and branding have never been more critical to manufacturers' success. In the article "Consumer Solutions at Retail – Beyond Category Management" in this issue of Viewpoint, Ben Ball asserts that "brands that matter" are the number one requirement for manufacturers in this brave new retail world.

There are two key elements to the new retail reality. Number one, the old rules don't apply and number two, there are new competitors on the field. The new competitors are, of course, the retailers who are working to capture a larger share of influence and profits by extending their franchise with consumers. That extension will include both a more influential role with consumers and a renewed emphasis on establishing Own Label brands. The latter is an obvious threat to manufacturers' brands, but let's talk about the former.

The fact is that the model for how products and brands get to consumers has changed forever. The old model called for the retailer to simply make brands available while manufacturers ("the marketers") talked directly to consumers to create demand (Figure 1). The new model puts retailers squarely in the middle of brand messaging as well as brand presentation and availability, and some of those brands are theirs!

Figure 1:
RETAIL'S NEW ROLE IN BRANDING



The Challenge

Manufacturers need a way to build brands in this new retail reality. They need to be able to leverage existing brand franchises with consumers and to build new brands as well. These brands need to be seen by retailers as meeting three key criteria:

1. meeting a unique, value-added consumer need,
2. building on the retailers' category strategy and image with consumers, and
3. building profitability.

To do that, you must have a firm grasp on both your brand image with consumers and its extendability. A "brand image map," if you will, that fosters a clear vision of what the brand is and can be. If our definition of "brands that matter" is correct (brands for which the consumer will go to another outlet to shop the category if that brand is not available) then we are really talking about "MegaBrands."

Building "MegaBrands"

Building Megabrands in the new retail reality requires that all three elements of "The Looming Consumer Challenge" be met. DHC and New Product Insights, Inc. (see below) have teamed up to provide our clients with an end-to-end solution to this challenge (Figure 2).

Building "Megabrands" is at the heart of the New Product Insights, Inc., NPI Megabrand Model® (see next page). This model is used successfully by scores of CPG and other clients to map brand growth and create winning brand strategies.

The NPI Megabrand Model® is based on understanding essential category and brand benefits. Applying this approach truly leads to "brands that matter."

DHC's new Retail Impact Mapping™ process addresses the second issue –

> ***About NPI***
>
> Lewis A. Berey heads New Product Insights (NPI), a 30-year old brand and new product consulting firm with 65 of the top 100 consumer advertisers as clients. Prior to leading NPI, Lewis held senior level sales and marketing positions at H.J. Heinz Company and General Mills, and in 1970 joined and later became President of Synergistic Communications Group, former parent corporation of NPI.

Thought Leadership in Demand Generation – by actually going into the retail environment with a panel of "expert consumers." By applying this process, clients can assess the impact the retail environment might have on the brand proposition. They can also develop innovative ways to maximize category and brand equity building opportunities for retailers.

Becoming "The Collaborator of Choice" requires understanding that the customer relationship is much broader than just Demand Generation. In fact, this is only one of ten key Business Process Touchpoints addressed in the DHC Customer Development Model™. Major CPG manufacturers have already used this approach to increase the total impact and return generated by their brand offerings.

"MegaBrand Projects"

Addressing this "new retail reality" presents varied challenges for our clients. For some, the complete end-to-end solution is required. Others, however, may only need help with specific elements of the process.

Some of the specific outputs of a typical project are:

- NPI MegaBrand Model® Map and Strategy to guide consumer strategy/messaging
- Brand Mission Statement and Vision
- Retail Impact Map to guide retailer/in-store strategy
- Category Strategy Assessment for Major Customers
- Retailer Alliances and Testing Facilitation
- New Product Launch Plans and "Selling Story"

If you would like to know more about how this integrated end-to-end solution to brand development in the new retail reality could work for you, please contact Ben Ball, Vice President of Dechert-Hampe & Company at 847.559.0490 or dhc-il@dechert-hampe.com, or Lewis Berey of NPI at 816.561.9191. V

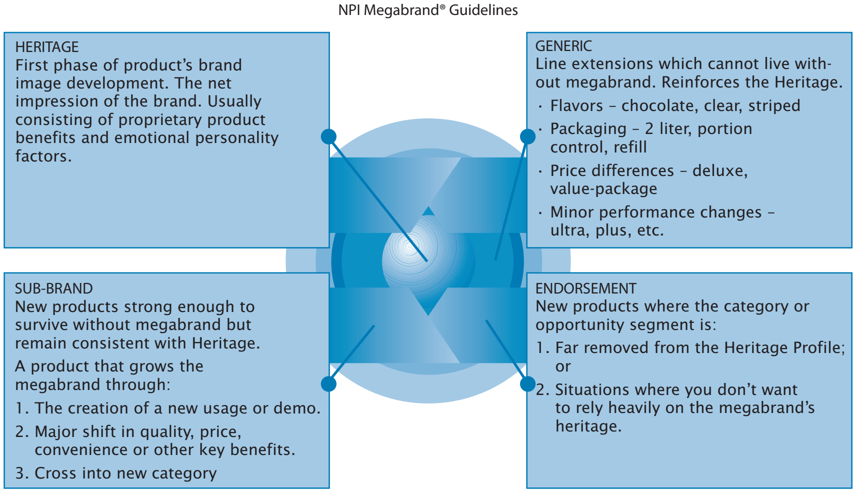
Figure 2:
BUILDING "MEGABRANDS" IN THE NEW RETAIL REALITY

Challenge	Solution
1. Build brands that matter	NPI Megabrand Model®
2. Thought leadership in Demand Generation	DHC Retail Impact Mapping™
3. Be "The Collaborator of Choice"	DHC Customer Development Model™

WHAT IS THE NPI MEGABRAND MODEL®?

The NPI Megabrand Model® results from a disciplined proprietary process that delivers optimum management and growth of a brand's portfolio. It guides the development of new products and services for established megabrands. It will also restructure the existing portfolio to optimize SKU and line effectiveness.

NPI Megabrand® Guidelines



Viewpoint Web Site of Interest

crmcommunity.com

CRMCommunity is a community oriented Web source for comprehensive, targeted information on evaluating, purchasing and implementing customer relationship management technology and solutions.

CRMCommunity:

Serves as a catalyst for exchanging CRM strategy, ideas and definitions.

Provides interactive CRM peer exchange and networking.

Promotes the effective adoption of CRM technology standards.

The web site offers news, a library, discussion forums and a resource directory.

We Know Exactly How You *Feel*

BY TIM GUEN

EMOTION-BASED RESEARCH SHEDS LIGHT ON WHAT TRULY MOTIVATES PEOPLE.

Put down your cell phone for a moment. Now, consider the many ways in which this device has increased your personal and business productivity compared to, say, ten years ago. No more down time in cars and airports. Clients, colleagues and spouses can reach you anywhere (okay, nothing's perfect). If you had to rate your productivity in the pre-cellular era, you probably wouldn't describe yourself as "unproductive"; it's merely that new technology enables you to do more than you previously imagined.

A New Economy truism is that technological advances that meaningfully improve performance are rapidly and eagerly accepted by the mainstream, and become institutionalized as new behavioral standards. Wireless communications is an obvious current example. Less recently, the same was true for disposable diapers, metal woods, and UPC barcode scanning.

Market research has been on its own evolutionary path, with scientific advancement acting as the technological driver. The new area is ***emotion-based research***, and it presents evidence of being the next frontier of market analysis and human insights – providing greater insights into human behavior and motivations than previously imagined.

With each successive study on the topic, neurologists and psychologists are converging on the view that without understanding emotions, you can't understand how people make decisions. In fact, there is a growing consensus that emotions are more important than thoughts in the human decision-making process.

Predicting the Past

In the same way that there's nothing really wrong with a wooden tennis racket, there's nothing fundamentally wrong with traditional market research techniques. Focus groups, telephone surveys, mall intercepts, et al, all gather voluminous data with the end goal of providing insight into how consumers will behave in the future. The trouble is, these studies do a much better job of explaining past behavior than future intent, and often times provide a complete misprediction of how consumers eventually will act. Market research professionals have always understood this, and rationalized the existing techniques as "an imperfect tool, but the best we've got." One only has to refer to the high failure rates of new product launches to understand the inherent weakness in these tools as accurate predictors.

Emotions and the Brain

Recent advances in neuroscience and psychology have provided insights into this gap between stated intentions and actual behaviors. Colloquially, people speak of the "left brain" and "right brain" to explain the brain's diverse functions. More accurately, various parts of the brain play different roles in the process of reasoning and decision-making (Figure 1). The top of the brain (neo-cortex) is in charge of logic and evaluation, such as rating on a 1-5 scale,

ABOUT THE AUTHOR Tim Guen is Senior Vice President for Gang & Gang, Inc. Previously he has held senior sales and marketing responsibilities at P&G, M&M/MARS and ShopLink.com. For more information about Resonance, visit the Gang & Gang web site at www.gang.net.

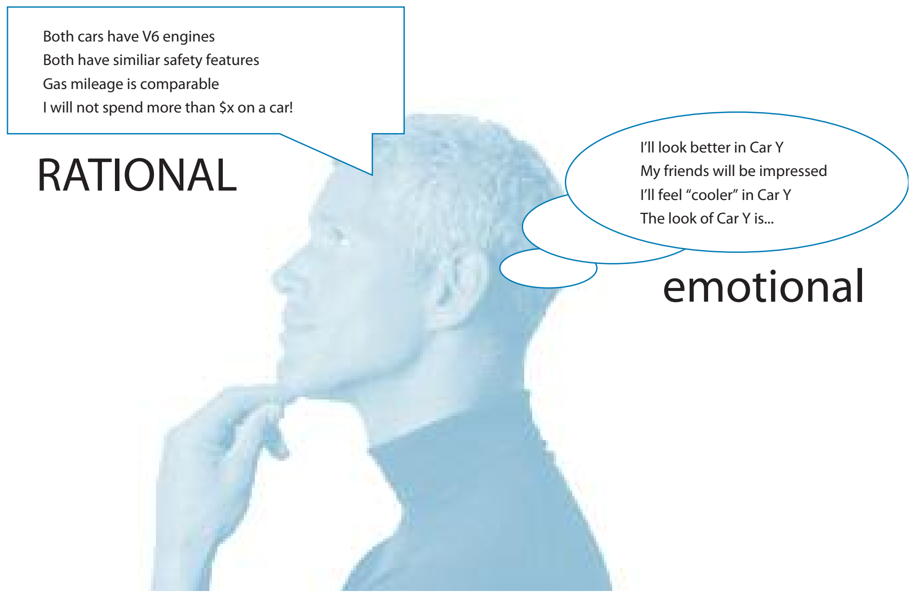
explaining behavior, making tradeoffs, etc. It is also the part of the brain responsible for self-image and censorship – the natural opponent to spontaneous and sincere response.

The "base" of the brain (limbic system) is where people's emotions and impulses are housed; it's also where you'll find their instincts, fears, and closely held secrets. Advertisers have always targeted this part of their brain to create an emotional bond with a prospective user, suspecting that brand equity and brand loyalty would follow. Truth be told, ad campaigns have always flown a bit blind because the research that led to their development has not been able to access this seemingly critical area.

Gang & Gang (a Salem, MA consulting and market research firm) has successfully bridged this gap between rational thoughts and emotional feelings, using its proprietary research methodology called Resonance®. Its methodology overcomes the insincerity and bias inherent in traditional research, and taps into the spontaneous feelings and passions of its respondents – the things that truly motivate people to try a new product or service, or perhaps inhibit them from adopting change. Resonance® departs from other emotion-based research efforts, by combining rigorous quantification of emotions with its qualitative input.

"We are sought by clients who have problems with 'High Say, Low Do', says Steve Gang, President/CEO of Gang & Gang, referring to the penchant for people to express strong intentions but not follow through. "We've consistently found that emotions govern behavior in all cases, from employee retention to the launch of new products" (Figure 2).

Figure 1:
COMBINING THE RATIONAL AND THE EMOTIONAL SIDES OF THE BRAIN PROVIDE THE COMPLETE PICTURE OF HOW DECISIONS ARE MADE



Emotions Affect all Business Areas
If you're in market research, this is an area of obvious interest from both an academic and practical standpoint. But what if you're in human resources, or retailing, or sales? How should you think about the implications of having a greater understanding of your "customers," whether internal or external? Consider how further application of emotion-based research can increase your effectiveness.

Organizational effectiveness
Employee satisfaction surveys provide snapshots of the issues that challenge companies. Too often they highlight "red herring" issues, or are designed to justify keeping of the status quo. Using emotion-based research, Pitney Bowes is able to provide senior leadership with an unvarnished view of their employees' feelings about the company's strategy, management, communication, their future, and other topics of strategic importance. Deborah Leonard, previously Vice President of Human Resources, uses Resonance® checkpoint surveys every six months, to measure changes in employees' feelings towards the company. "It's a cutting edge diagnostic tool that truly reveals organizational drivers for Pitney Bowes Financial Services, and provides greater clarity and prescription than traditional survey methods," says Leonard. "I can't imagine building a successful organization without Resonance®."

Advertising effectiveness
Traditional advertising research measures the viewer's ability to recall the ad campaign, the message, the brand, and the viewer's intention to try/buy the product as influenced by the advertising. As previously noted, there is a weak correlation between spoken intent

We Know Exactly How You *Feel*

Figure 2:
OVERALL MOTOVATIONS TO ACT

Resonance® uncovers what really motivates people in "high-intention, low-action" situations.

and demonstrated behavior. Procter & Gamble recently used Resonance® to understand some elusive questions: how much does an advertising campaign build brand equity? How much of an ad represents "distraction" (for the sake of entertaining and engagement), and does it help sell the brand? Can consumers really "love" a dishwashing liquid the same way they love a car? Considering the billions of dollars spent on traditional and interactive media, these are seminal questions with enormous consequences.

Retailer effectiveness

Loyalty marketing is a booming outgrowth of the current retail environment; loyalty cards are almost a competitive ante, albeit with significant administrative costs and no real evidence as to whether they are creating more loyalty or simply rewarding ordinary behavior. ShopLink.com, the Boston-based e-grocer, used Resonance® to understand the aspects of loyalty that had little to do with monetary incentives. They found that the core issues of trust and credibility could be effectively addressed by creating an emotional relationship with their customers. Electronic greeting cards, free samples, baby gifts for new mothers, and other acts of kindness were commonplace surprises. "We believe that loyalty is bred when you treat your customers like you would your best friends," says Peg Merzbacher, then Marketing Director for ShopLink. While financial constraints forced the company to close in November 2000, they had proven their point: ShopLink had the highest level of customer retention in the online grocery channel.

Sales effectiveness

Customer segmentation is a mature practice, and can be made more effective by incorporating emotions and motivations into the analysis. In less than 15 years, segmentation practices have evolved from demographic segmentation (crude but better than nothing) to behavioral segmentation (meaningful but not predictive) to a new level: *motivational segmentation.* When a sales person can distinguish customers and prospects based on their motivations to buy/participate, there is a natural increase in sales productivity and ROI. A top five pharmaceutical company used Resonance® to understand the willingness of primary care physicians and specialists to prescribe a new drug. Using motivational segmentation, Resonance® was able to predict which physicians would be early adopters; in post-evaluation, an astounding 100% of the physicians who prescribed the drug were in the early adopter group. Moreover, the analysis was able to identify a large group of early adopters who were not behaving that way (yet), and led to the development of sales training tools that helped them identify doctors who fit the right profile.

Need Motivation?

It's easy to foresee that companies surviving the consolidation shakeout will be intensely focused on meeting profit commitments to its shareholders. This will manifest as a mandate to marketing leaders to migrate from the inefficiencies of mass marketing to the heightened effectiveness of target marketing. Organizationally, every department head will be tasked with increasing employee productivity, which will involve paying as much attention to cultural and morale issues as it will to budget management and skills training. Understanding emotions and what really motivates people can help to increase the chances of your success.

BellSouth and Eli Lilly are all using Resonance® to better predict how their consumers or employees will behave. For more information about how Resonance® research can help your business, contact either Lee Nichols, President of Dechert-Hampe & Company at 949.429.1999 or dhc-ca@dechert-hampe.com, or Tim Guen of Resonance at 978.740.4474.

Okay, now you can pick up your cell phone again. V

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