



**New Year's Resolution:** Hire more analytics experts!

# ANALYTICS

## THE DECISIVE ADVANTAGE

For every CPG company seeking successful innovation and marketing advantage, analytics are a 2008 imperative, asserts Steve David, Chairman of Iomega Corp., Senior Advisor to the Boston Consulting Group, and former P&G Global Customer Development Officer, CIO and B-to-B Officer. So it's time, he says, to hunker down, bring your data together, do the work and start to make sense of it. The difference between those who do and those who don't: Sustainability.

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By STEVE DAVID

**I**N THE MARKETPLACE TODAY, WE ARE SEEING MANY INDICATORS OF AN INFLECTION POINT, one that will produce new winners, as well as sad stories of companies that failed to recognize and respond to accelerating change.

We don't know when the table will tip; we must leave that to the historians. A useful analogy might be peak oil: Some people say oil extraction peaked five years ago, some say the peak won't come for 10 or 15 more years. Either way, 100 years from now, people will look back and say, *During that period of time, oil peaked.*

But it is certain: In CPG and retailing, no less than in energy supply, an inflection point is starting to happen — right now.

One indicator is the recent performance of powerful chain retailers whose once-impressive growth has slowed. Another is the declining sales rate posted by an extremely high percentage of older stores. Still another is an ever-widening gap in business results between retailers and CPG manufacturers who seemingly "get it," and those who seemingly don't.

What is the common denominator of the high performers? What is it that they "get?" In my view, it is two key things: *the vital importance of granular customer knowledge and willingness to act on it.*

At the macro level, better customer knowledge is the basis for successful innovation — innovation that can provide companies with sustainable growth.

WHAT DOES IT TAKE TO "GET IT?" Going forward, superior customer knowledge will require the right organizational set-up — one that enables new information capabilities and moves significant IT support from back-office functions to

the "front of the house" — revenue- and profit-driving activities.

A customer knowledge advantage will also require much more external focus, rather than the largely internal focus that has characterized much of the innovation attempted in the last 10 or 15 years. This internally focused innovation has centered on product — *make a better molecule, produce a better perfume, design a better label to stand out on the shelf.* Those are important, and will clearly continue.

But from now on, what will enable sustainability is an external focus on customer and consumer — gathering, analyzing and using information to reveal opportunity, and delivering on these revealed customer needs with new offerings, including information and services that improve the overall product or shopping experience.

In my view, it is only these *truly information-based* innovations that, in today's environment, are likely to result in customer and consumer loyalty and, therefore, reward the company with sustainable growth.

THE ESSENTIAL EXTERNAL FOCUS MEANS WORKING UP AND DOWN THE SUPPLY CHAIN. Most of the time, it also means relinquishing a certain amount of control to others — a difficult challenge for companies in the habit of holding information close to the vest.

At P&G, we used to talk about taking half the time and half the inventory out of the system — while at the same time improving overall line fills and customer satisfaction.

How does one square that circle? With step changes in the supply chain — step changes based on sharing information.

Supply chain improvements simply can't happen without transparency — the transparency of shared information.

Of course, for shared information to be useful, it must be communicated in the same "language" — especially in today's global CPG world. This is why I have always been such a strong advocate of global standards — we require global industry standards to enable the transparency we need to know *where the product is.*

ON THE SUPPLY CHAIN STANDARDS FRONT, the old saying, *"It takes 10 years to be an overnight success"* is probably apropos. Indeed, the industry has worked collaboratively (more or less) on standards for 25 years or more.

In 2008, we must push for more progress. It's vital that we create much, *much* more supply chain transparency — which, again, depends on these standards. In an ever-more demand-driven world, we must be able to see back — *Do we have the raw materials in the supply line?* — and forward, down to the store level, to see what is in stock or out.

While we had all hoped that our trading standards with GS1, RFID and EPC would have taken even more hold by now, nevertheless, if we look back at what has happened over the last six or seven years, the progress has actually been quite impressive.

*But we need that rate to double or quadruple in the next three to five years.*

ON THE RETAIL FRONT, VISIBILITY OF A DIFFERENT SORT — SHOPPER VISIBILITY — IS KEY. We all need much more visibility into shopper needs if our trading partners' growth — and our own — is to be sustainable. Only this knowledge can reveal new ways of maintaining and

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increasing our mutual relevance to the shopper.

Historically, as we know, the retailer has applied a limited repertoire of approaches to growing volume: *Get a better acquisition price. Add private label. Expand private label. Open more stores. Close unprofitable stores. Refresh the format.*

Where these fall short is that few such efforts have been based on providing better service to the shopper, or enhancing the consumer's knowledge or experience — the experience they need to become more loyal to a store or brand.

Questions that have been largely unasked include: *What are the in-store adjacencies that look like value to a shopper? What environment, experience and knowledge can we provide that will persuade our customers to buy more — and feel good about it, so that they come back?*

Only when we begin to ask these externally focused questions and gain visibility into the consumer behaviors that answer them will we and our retail trading partners be able to innovate and succeed in a sustainable way.

## ANALYTICS: A 2008 Imperative

TODAY, THERE ARE CLEAR EXAMPLES OF THE KIND OF RESULTS-TRAJECTORY TURN-AROUND that can be achieved when companies dig in and analyze their data.

In 2008 and beyond, it is just such work — analytics — that will support both innovation and sustainability.

Analytics, in my view, will become the key differentiator between those who do much better than those who don't. The old mode of going out and putting 10 more SKUs on the shelf, hoping that two or three will stick to the wall, won't be sustainable (if it ever was).

Dunnhumby's work with Tesco and Kroger is demonstrating how the tedious, unglamorous work of sifting through a deluge of shopper data can produce some very glamorous results.

My years at Procter & Gamble suggest that this is no "one-off" success. Consider: If you were able to dial back 12 to 15 years and look at where we were with



scanner data, companies like P&G and a few others were pushing hard to move from the aggregated "sample" scanner data to census data. The goal: to find out what was really, truly happening in the stores.

When that occurred, there was a step change inside these companies: They began to gain a much better understanding of *their own businesses*.

Indeed, this, too, was an inflection point: Forward-looking analytics began to take hold. People actually started to *do* things with the data they had — to understand, for example, that *If I build my share in THIS part of the country, it has THAT kind of impact nationally. Or, If I run THESE kinds of events instead of THOSE, I can begin to achieve greater merchandising effectiveness.*

**DIAL FORWARD TO TODAY:** As we're all acutely aware, in the last five or six years, so much more data has become available. We still have the census data, (although many people are pulling it together not knowing what to do with it). And now, there's a new deluge of data, new kinds, from every source — shopper loyalty cards, consumer data that manufacturers pull together, all kinds of surveys, feedback from new digital marketing initiatives.

Yes, it's overwhelming — it's very difficult to see the trees for the forest.

**BUT SEE THE TREES —** INDIVIDUAL SHOPPER BEHAVIORS AND NEEDS — WE MUST, if we are to be among the future's survival, success and sustainability stories.

That's why smart companies are struggling to make sense of their data — even though they, too, often feel overwhelmed and confused.

But as they say, the journey really does begin with the first step — and the next, and the next, and the next ...

**WHAT'S THAT FIRST STEP?** In my view, the really big winners will be not only those who work with companies like Dunnhumby, Priva Technologies and TrueDemand, all leaders in the innovative and critical core competency of customer and marketing management insights.

The winners will be those who start — *now* — to integrate into their company a *different way of behaving* based on the analytics they're seeing: *What are my retail customers doing? What are my shoppers doing?*

Today, a company needs to know much more than which 20 percent of its customers represent 80 percent of its sales or profits. That's interesting. *But it's not actionable.*

What must be done is dig down to the next layer — the specific customer. That doesn't mean you have to know an individual person, to identify "*Mary Jones at 5th and Elm.*" But you need to know her as a number, and you absolutely need to know *her buying habits and behaviors*. These can be monitored, and good things can result.

Amazon is an often-cited example: Log on, and the site makes suggestions for you to consider, based on your previous purchases, thereby making it a better experience for you. Ninety percent of people who use Amazon feel that this is helpful to them.

**THE NEXT PHASE FOR CPG COMPANIES IS TO USE THEIR ANALYTICS IN A SIMILARLY POSITIVE SENSE.** Which is to say, it's not about dispensing a coupon at checkout for your product because the consumer has just purchased a competitor's. That's just teaching *disloyalty*. (In fact, the vast majority of people just throw these away; many people are actually annoyed by the approach.)

**“WHETHER 2008 WILL, YEARS HENCE, BE DATED THE INFLECTION POINT we cannot know.**

**What is certain is that we are entering an era demanding new leadership.**

**That doesn't mean we need new leaders.**

**But today's leaders will need to *think* and *act* like new leaders — *differently.*”**



In my view, a better approach would be to say, in effect, to the shopper who just purchased two SKUs of Oil of Olay: *Did you know there's this third and fourth SKU that work synergistically with the products you purchased, and will give you a better result? Here's how and why ...*

When given that kind of information, shoppers perceive an added value. Approaches that provide *content, information* and *service* are those to which shoppers respond. CPG and retail leaders who “get” that, who integrate it into their business, are taking the necessary next step.

THE MOST SUCCESSFUL COMPANIES MASTER THE ART, not just the science, the technology and the tools. Through analytics — the science and technology of data analysis — you can understand: *Who are my customers? How do they act in the store? What's the surrounding environment? What information do they really want, in order to make a better, more informed decision?*

In short, the analytics tell you *how people are behaving*. If a woman is interested in, say, softer skin or sun protection, often she is *looking for information* — information she (or he) believes is credible.

AND THEN COMES THE “ART” PIECE: *Based on what we now know, what, exactly, do we deliver to her? What is “credible”? Is it credible coming just from the manufacturer, or do we need a doctor, a dermatologist, to inform her that this treatment is better than that one?*

The art is ferreting out the truthful information that can be helpful — and presenting it in an effective way, in the right medium and at the right time and place — to *help the consumer make a better, more informed choice.*

The art of satisfying consumers you know by filling a need that, based on your analytics, you know that they have is something no technology provider can deliver. *It's up to you.* Success in this new era is an output of your leadership, your organizational structure and culture, your people and their talent.

To succeed at both the science of analytics and the art of better filling revealed consumer needs, you require an organization that understands the new imperatives, and enlightened and willing marketing and sales people. And you need support for them — an in-house analytic group that is able to “co-join” the internal data you have amassed with the external census-oriented data that comes from TLOGs, customer loyalty programs, credit card information, digital programs and more.

Again, it's beneficial to work with companies like Dunnhumby and Priva. The most important success factor, however, will be the *organization you put together, how you systematize analytics in your company, and how you execute against what you learn.*

SOMETIMES, MOVING FROM AN INTERNAL FOCUS to an external customer and consumer focus supported by analytics requires a real culture shift.

Some companies, for example, have become so decentralized that they don't collaborate or cooperate even within their own walls. This can dramatically reduce scale, slow its integration with the supply chain or its customers to a crawl — even stand in the way of doing the urgent analytic work.

In my role as senior adviser to Boston Consulting, I see some CPG companies and retailers beginning to recognize the

nature of these problems, and starting to ask the right questions: *What in our current culture do we think is very good, and what do we think is counterproductive? How can we maximize what is good? How do we neutralize cultural assumptions and practices that stand in our way? What should we centralize? What should we de-centralize? What are our core competencies, those that create competitive advantage for us? How can we leverage these with an external focus?*

AS WE RE-FOCUS EXTERNALLY AND EMPLOY ANALYTICS TO KNOW THE CUSTOMER EVER BETTER, *effectiveness* will increase our efficiency.

It was said to me recently: “Since the advent of the coupon, we have sent coupons out in ways designed to be the most efficient: We put them in Valassis mailings, we bundle them all together, we systematized the process of clearing them. Coupons have been an efficiency play.

“But going forward, coupons will be an *effectiveness* play. The smart companies will be asking: *Now that we know so much more about these people we're sending all these coupons to, what can we do to make the content, the promotion, the value more effective?*”

In this area and many others, *effectiveness* and *sustainability* will be the hallmark of analytics tool users with an external focus.

WHETHER 2008 WILL, YEARS FROM NOW, BE DATED AS THE INFLECTION POINT, WE CANNOT KNOW. What we do know is that we are entering an era demanding new leadership. That doesn't mean we need new leaders.

But today's leaders will need to think and act like new leaders — *differently.* ■