

CMS Consulting, Inc.
CUSTOMER
MANAGEMENT
SOLUTIONS



customer management news

WHAT'S NEW AT CMS

- Frank Blod joins CMS. Frank joins CMS from PricewaterhouseCoopers, where he was managing partner of their Sales Transformation and CRM practices.
- CMS goes to Canada. CMS has entered into an agreement in principal to take our Sales Trac and Share Group services to Canada. We will have local sponsors in Canada, and will hire local folks to run the operation. Details to follow. If you have an interest in our Canadian initiatives, please contact us.
- We celebrated our 11th anniversary on February 22, 2003. From humble beginnings as a sole proprietorship, to a staff of nine, CMS continues to offer CPG Sales organizations expertise from strategy, to organization design, training and ongoing organizational development.

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FEATURE ARTICLE

SIZE MATTERS, BUT KNOWLEDGE MATTERS MORE

It's no surprise that larger companies bring more resources to bear on the marketplace, giving them competitive advantage – that is the reason why most of the consolidations we've seen take place to begin with.

Interesting questions arise from this situation: First, where are the most successful companies investing these added resources to win in the marketplace?

And second: what do you do if you are forced to compete with these mega-companies, and you cannot match their size and resources?

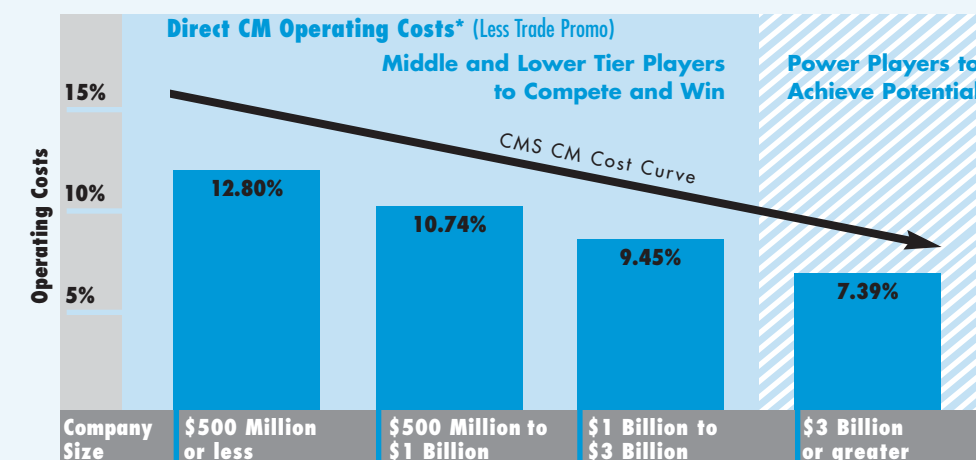
In this premier CMS newsletter, we explore the effect of size in the marketplace, looking at how the best of the big compete to win, and how the not-so-big can also thrive in this environment.

As the chart shows, something we all knew but maybe couldn't prove is true – larger companies have more cash dropping to the bottom line, not just in dollars, but in percentages (efficiency). These data come from *continued on page 2*

CMS MISSION

The CMS Mission

To empower CPG clients to compete in this changing industry



*CM Department Operating Costs

Cash Discounts
 Sales Operating Costs
 (Trade Promo not included)

Broker Expenses
 Slotting Allowances
 Fixtures

Sales Reductions
 - Unsalables
 - Damages/Spoils
 - Shipping errors

Source
 CMS 2001
 Sales Trac™

CMS SalesTracsm, and show that sales operating costs (as a percentage of sales) decrease from 4.04% for companies under 500 million to 2.77% for companies greater than three billion.

This translates into trade investment differences that are at the very least, impressive.

4 ESSENTIAL KNOWLEDGE BASES

To compete effectively, you must understand your environment in four important ways.

- 1 First, you must understand your consumers.
- 2 Next, understand your customers. Many of our friends in the industry leave this to customers' scorecards or "gut feel". The best have a systematic approach.
- 3 Then you must understand your competition. How do you stack up?
- 4 And you must understand best practices. Which can you adopt?

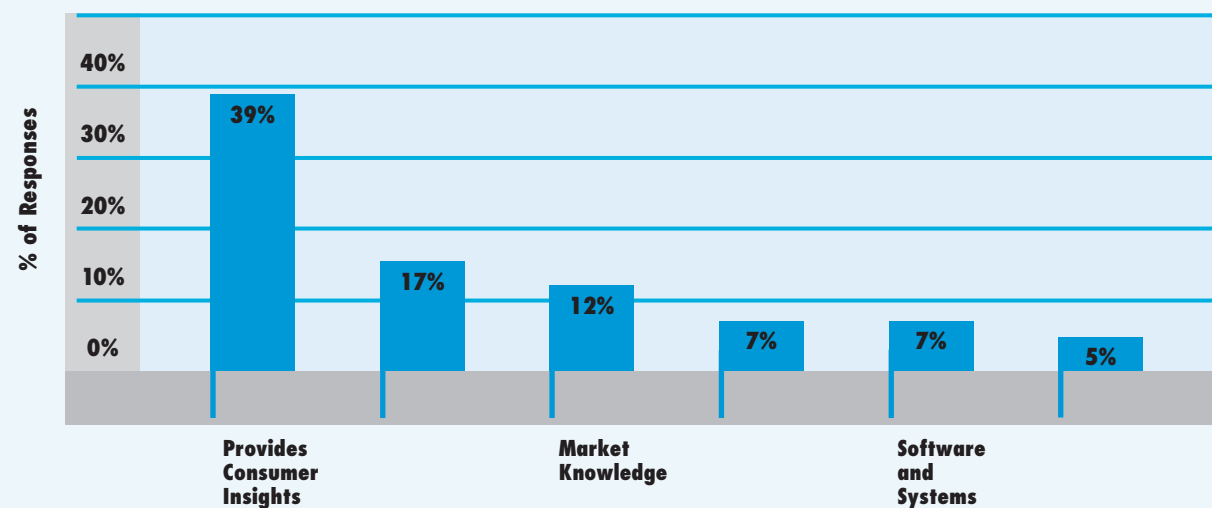
So, again, the question for the larger among you: Are you investing in the right places to win this high-stakes poker game? And for the smaller among you, How do you compete with these gargantuan pocketbooks?

Oddly enough, the answer is the same for both groups – invest in knowledge. After good people, there is no surer driver of your business than good knowledge properly applied, yet few companies have an integrated approach to knowledge management. In this issue, we'll talk about how to implement such an approach.

1 DO YOU KNOW YOUR CONSUMER WELL ENOUGH?

Knowing the consumer used to be the province of the Marketing Department. Then, in the 70's, Trade Marketing was born and Sales was brought into the consumer side of the equation.

Retailers' Reasons for Success of Manufacturer's Cat Man Programs (% of Responses)



Cat Man Changes (Almost) Everything
Next came Category Management, and Sales began looking at consumer decision trees, and moved from presenting what had happened (via syndicated data) to presenting what could have happened with consumer behavior information. This caused the first real change in the retailer-manufacturer relationship – we may not have been "partners", as much as that term was bandied about, but for the first time we were actually sharing information.

That sea change was the genesis of the tsunami of information utilization we see today, although there was a not-so-brief "hick-up" along the way – templates.

One Step Forward, Two Steps Back
Templates, under the guise of thorough analysis, and they did provide that, took us back to what was, and away from what could be. In essence, they simply gave us a better understanding of past results – what was – and took a lot more time to do it. The "Time of the Templates" produced a number of profound influences on the industry. The most profound, arguably, was the institutionalization of the manufacturer as analyst.

Of course, to an extent, we asked for it! As manufacturers, we have always pushed for more access, more data, more control over ordering. As the saying goes, "Be careful what you ask for!"

Once the Cat Man revolution took place, retailers began to trust manufacturers to crunch their numbers for them. Then, with the advent of templates, retailers truly learned how to make money by outsourcing analysis, and the genie was fully out of the bottle.

Today's environment, with VMI, CPFAR, on-site analysts, and ever more costs and uncertainty of ROI produces an ever-increasing challenge. So, what do you do?

Action Steps

1. Assess your organization's knowledge of how consumers buy your categories.
2. Do they excel at communicating what could be? Or are they mired in what was?
3. Decide if you want to survive, or prevail!

2 DO YOU KNOW YOUR CUSTOMERS, AND DO THEY KNOW ABOUT YOU?

Historical Perspective

In the 70's and 80's, we used to assess customer attitudes toward our efforts with mass mailings of multi-page surveys to buyers, VP's of Merchandising and warehouse managers. The results were then averaged, and a report generated.

Today's Reality

Can anyone really imagine going to certain large, Southern retailer with average customer ratings today?

Today's reality is that the big customers, those who make up as much as 75% of most companies' business, want to get on the record with their opinions, and they want us on the record with our commitment to addressing any issues that arise.

So What do We Do?

The key is to invert the process. Rather than develop a survey and average the results, we need to focus on the customer's needs.

The new process is:

1. Fulfill customer metrics requirements. Use their process.
2. Report to each customer your commitment to work together to reach agreed-to goals.

3. Aggregate the results to better frame your overall sales strategy. By aggregating results after the fact, rather than trying to force the customer into a "one size fits all survey", we and they get what we need to plan for excellence.

The problem is, doing it right takes time. Who has ownership of your process?

TWO DEFINITIONS:

TO SURVIVE:
to continue to exist

TO PREVAIL:
to gain victory or superiority

WHICH DESCRIBES YOUR
ORGANIZATION'S GOAL?

3 DO YOU REALLY KNOW WHERE YOUR COMPETITION IS GOING?

The Tradition

Knowing the competition is one of the most difficult parts of effective sales force management. Many rely on a combination of "common knowledge", "field intelligence" and "Trade Publications" to understand the competitive "lay of the land".

If one were to believe these "reliable sources", we would find that every competitor has 10,000 direct sales reps, each with a laptop, three analysts and an armored car full of cash.

The Reality

Unfortunately, this type of intel cannot be gathered in house – you must outsource. Only a company that is unbiased, experienced in this sort of information gathering and who does it for a living – not as a "special project" after quota is achieved – can give reliable information.

What to do

1. Find an experienced company from whom you can get good information
2. Budget for regular (every two years) competitive benchmarking.
3. Don't believe everything you hear from your own people.
4. Act on what you learn.

4 BETTER UNDERSTAND BEST PRACTICES

The Gold Standard

How does your organization compare? Against whom should you reasonably compare your operation? How?

Not everyone can be a Frito, P&G or Kraft / GF, who seek to be consultants to the retailer community on their entire operation. Some of our clients want to be the best in providing knowledge to customers. Some want to be lower key, "under the radar", taking what they can when they can. Some want to use their wallets. What is your goal?

The Competitive Set

Your competitive set probably consists of like-sized companies, in your categories or similar categories. Who's the best?

Why? How have they chosen to win? Should you go head-to-head, or is there a better way? And, are there things you can learn from the P&G's of the world? How can you tell?

Gathering The Knowledge

There are a number of sources, from industry seminars, trade shows, and share groups, but most of this can be vague or self-serving. The key is to approach this systematically, with resources you trust.

It probably requires a full time headcount – often called Manager of Sales Strategy. This job can only be done by a very special type of person, one who thrives in an area of ambiguity, and who doesn't need the concrete feedback of a quota to feel successful. Finding this person within your organization can be difficult...many find them in departments outside sales, or in senior managers who have the contacts and experience to get the job done.

Action Steps

1. Determine those areas of execution that are critical to your organization.
2. Thoroughly analyze industry / competitive best practices in those areas.
3. Take a systematic approach to implementing appropriate changes.

+ PUTTING IT ALL TOGETHER

The Bottom Line

So, what's it all mean?

First, if you're one of the big guys, the race is on to ensure you're spending all that money more effectively than the competition. If you're a smaller firm, you must ensure you spend efficiently – gaining the biggest "bang for the buck".

But the underlying theme is this:

1. You cannot make good decisions about sales strategy without good information about what others are doing, successfully.
2. The information you need is available, if difficult to obtain.
3. The best will find a way to get it, and will use it to win.

If you don't have a formal, well-understood process to generate knowledge excellence, you don't have a process at all. But the best among your competitors do.

Action Steps

1. Put together a knowledge management strategy – what your people need to know, how to learn it, how to use it.
2. Set goals to measure ROI on your knowledge investment.
3. Get the budget combined with the syndicated data budget (it'll be a rounding error!)
4. Get out there and PREVAIL!

What are others doing?

Managing Knowledge: CMS has worked with a number of companies to develop structures and processes for obtaining, managing and disseminating knowledge. One of our clients recently created a Vice President of Knowledge Management – joining what used to be cross-functional centers of knowledge – from Cat Man to MRD. We have also worked with a large HBC / Grocery client to create a Vice President of Strategy and Global Best Practices – both to corral the knowledge from around the world and to use it – market by market and concept by concept – where it would have the most impact.

Finally, we recently helped a nutraceuticals company to perform a "360 degree" evaluation – of themselves – by their business partners. The learnings from this study are going into a major initiative to improve their business partnering processes. Current plans call for evaluative studies every two years to check progress.