white paper

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Evolving E-Business: Not the New Thing, Just the Next Thing

Over the past decade, manufacturers and retailers have worked together in ECR, Category Management, Continuous Replenishment, and Focused Account Teams with the goal of dramatic cost savings. Trading relationships today are evolving to higher levels of collaboration, communication, and connectivity. The new goal is marketing effectiveness and consumer loyalty. E-business is accelerating the transformation by breaking down the barriers of time and space between manufacturers, retailers, and consumers. Attention has shifted to top-line growth and an emerging focus on collaborative one-to-one marketing. Manufacturers and retailers are now seeking to jointly develop consumer-driven marketing programs that are retail-centered and brand-focused.

Global Connectivity

Historically, large cities arose to facilitate trading. Similarly, large Internet communities today have arisen to facilitate social and commercial interaction. In North America, over 60% of households own a personal computer and most are connected to the Internet. Use of the Internet and the World Wide Web are growing "biologically." Usage is doubling every 100 days and is projected to be "invisible" within three years, which means that it will be as available globally as electricity, telephones, and VCRs.

In many industries and categories, Internet-based players now offer consumers dramatically new levels of customization and personalization in information and transactions. Dell Computer sells over $10 billion worth of machines via the Internet internationally. Traditional "on-land" retailers are going "online." As one very recent example, Wal-Mart just announced a strategic alliance with AOL as AOL acquired Time-Warner, the world's leading content provider.

Business Evolution

Most retailers and manufacturers today are Web-enabled in some form or another. So far these efforts have been directed toward providing information and access to consumers. The real economic power of the Internet is its ability to deliver cost savings. Many time-consuming and administrative business tasks can now be accomplished automatically within and across diverse computer systems and platforms. The order of magnitude of cost savings is in the range of 200-to-one or more.

E-Commerce Defined

E-commerce has two key components, the more obvious involving all aspects of business-to-consumer interaction. Typically, these activities are managed by the same traditional business entities that manage the offline interaction – marketing departments, advertising agencies, promotion agencies, direct marketing agencies, and Web developers.

The second and not-so-obvious component of e-commerce includes the whole area of business-to-business and trading partner activities, both on land and online. In the retail environment, these areas are typically managed by the purchasing function, and in the manufacturing environment these activities have been traditionally managed by the sales function.

B2C (Business-to-Consumer)

Traditional "push" and "pull" marketing methods over the past several centuries have largely involved one-way communications from the marketer to the consumer. In contrast, the Internet offers marketers a new capability for two-way communication and the ability to respond dynamically with "individual" consumers, provided consumers grant permission

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Retail

for two-way interaction.

Relative to the Internet, consumers "opt in" to any given community or service in a market space of virtually unlimited choice. The Internet is an environment of "abundance," where the only real scarce component is human attention. As a consequence, Internet marketing really involves "membership" management.

And consumer membership is driven by factors such as attraction, community-building, and value-added content.

Many evolving Internet marketers are focused first on building relationships with consumers and only harvest revenue as a late step in the process. Since two-way interaction now matters more as a requirement for consumer involvement, traditional marketers will also need to increase their focus on relationship marketing.

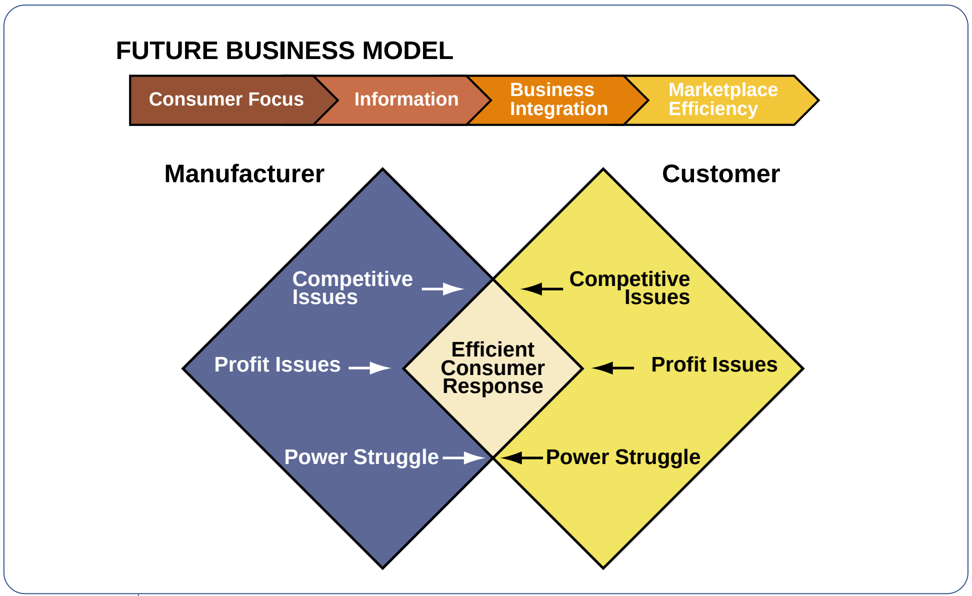

Figure 1.0 **Future business model**

B2B (Business-to-Business)

In today's marketplace, trading partner activities are simultaneously "going global" and becoming more consolidated. Over the past decade, both retailers and manufacturers have placed a sharp focus on cost savings throughout the supply chain. In many instances, these efforts have led to a range of mergers and acquisitions. For a typical retailer, 30 to 50 top vendors now generate the majority of volume and profit; conversely, for the typical CPG manufacturer, a short list of 20 to 30 top retailers generates over 80% of volume and profit.

In addition, manufacturers have accomplished dramatic changes in their supply chains. Categories that had involved miles of conveyor belts have been transformed into cellular manufacturing and global sourcing. Business units and divisions that operated autonomously have been consolidated with a common infrastructure.

While costs today are still a critical factor, manufacturers are now concerned with product innovation, non-price-value added, and less complexity, and have begun compensating their advertising agencies using results based formulas. Also in the past 12 months or so, top retailers are re-addressing the issue of "growing the top line."

Go-to-Market Synergies

Physical location, which had always been a point of differentiation for the traditional retailer, is now both less and more critical. The less critical part is that consumers are now more willing and able to shop online, which may result in fewer in-store visits. The more critical part is that when consumers do visit a store, they will expect a higher level point-of-purchase "experience" while there.

The Internet has eroded the retailer's traditional sources of competitive advantage. For the retailer the implications of "Web-involved" lifestyles include:

- Higher consumer expectations
- More points of relative competition
- A narrower spectrum of unique value-added and differentiation
- A changing role for "brick-and-mortar" retailing

Manufacturers now compete with retailers and simultaneously have an increasing need for improved collaboration and business alignment. The implications of "e-lifestyles" for the manufacturer are:

- The mediums for the brand message are becoming even more fragmented.
- The importance of the physical store as a marketing medium increases.
- The integration of data for operational use is critical (causals, household panel, point-of-sale off-take, frequent shopper, relationship marketing).

The bottom line is that successful collaborative marketing is based on delivering brand relevance and richness as desired and perceived by consumers.

E-Construction

There are two key factors that drive overall success for both the B2C area and B2B activities. First, key aspects of consumer and customer loyalty are established through efforts at attraction, content, non-price value-added, and less complexity.

W² Weblink

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For more on CPFR, see:
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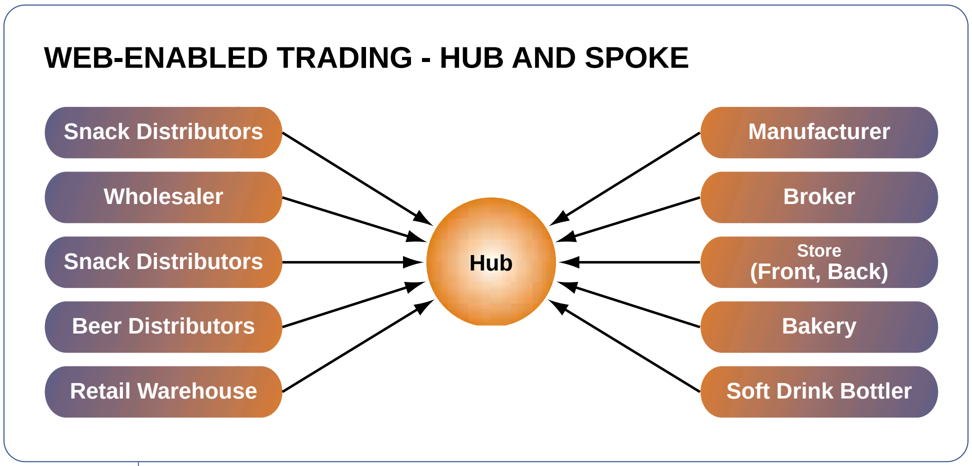

Figure 2.0 **Web-enabled trading**

Second, the "behind the scenes" operations must truly deliver on the brand promise. This new, extended CPG enterprise achieves higher productivity through open connectivity, wide breadth and depth of communications, and collaborative strategies and operations.

ECR industry studies depicted traditional manufacturer and retailer trading relationships using a "bow-tie" analogy where business functions were isolated islands of activity. With the natural progression of business and trading practices in response to connectivity, consumer focus, and globalization, this working paradigm has evolved to the "diamond" analogy, where business functions now work continuously together on alliance teams. With e-construction, the "diamond" becomes even more "fluid."

E-construction involves optimizing the collective best assets of trading partners including brands, marketing resources, store formats, merchandising best practices, category management knowledge, promotional vehicles, sales force, brokers, planning tools, and more.

The first task is to "de-construct" the framework and workloads that previously held these assets together. Secondly, trading partners utilize new, Web-enabled tools to take away the barriers of time, space, and information. Thirdly, trading partners "re-construct" the extended enterprise for consumer deliverables that are better aligned with an "e-oriented" and "e-paced" marketplace.

The "bow tie" and ECR involved efficient replenishment, efficient merchandising, promotion, and administration. With e-construction, these functions are evolving and extending into the seven B2B building blocks of the "diamond":

- E-analytics
- E-procurement
- Global, collaborative marketing
- E-launch
- Web-enabled trading
- E-content asset management
- Online agents and robots

E-Analytics

Leading "brick-and-mortar" retailers have to work hard to create and deliver a unique in-store experience through store formats that are tailored to neighborhood conditions. Almost universally, retailers have a high need for market and consumer-profiling information that would allow even more detailed "tuning."

With Web-enabled information, services and online shopping, retailers and manufacturers are now working together to fully integrate online shopping data, loyalty program data, household panel data, point-of-sale off-take data (by store and item), and marketing mix information.

As a result, there is a new level of "operational intelligence" being delivered by advanced data mining and data visualization and predictive models of consumer response. For example, online retailers can now identify unrealized purchase potential by comparing a single consumer's behavior to patterns of similar individuals. As another example, Microstrategy Inc., a provider of retail decision support systems, has grown to over $200 million in profitable, annual revenues.

E-Procurement

Outside of the CPG marketplace, a number of industries have established global, Web-enabled "smart" supply chains. Leaders in these areas include Cisco, Dell, Boeing, Ford, Microsoft, Chevron, Honda, and others.

These companies often operate in a build-to-order (BTO) mode with ultra-low in-process inventories. For just-in-time resupply, smart systems instantly pass final customer demand requirements to preferred or alliance materials and component vendors located around the world.

Leading providers of Web-enabled procurement systems include i2 ($400 million), Commerce One, Broadvision, and Ariba.

P&G is currently developing the "ultimate supply chain" for real-time, Web-enabled operations. Their vision is to integrate their entire forward- and backward-facing extra-nets. Their IT spending includes global collaborative technology, Web-enabled supply chain, data standards, and data warehousing.

Another P&G e-initiative is Reflect.com, a $50 million B2C partnership for beauty care. Reflect.com will sell personalized products exclusively over the Internet. Here P&G is creating a new brand in one of the richest consumer products categories – as well as cutting traditional retailers out of the pipeline. Fulfillment for these product is direct to households.

Global, Collaborative Marketing

Recognizing that the consumer now expects a high level of "personalization," both retailers and manufacturers need to demonstrate the "how-have-you-heard-me" and "show-me-why-this-is-for-me" aspects of marketing. Retailers are aware that manufacturers often have a broader and deeper knowledge and understanding of consumer motivation, in addition to highly recognized and valuable brands to offer. Conversely, manufacturers appreciate that top retailers generate significant store traffic and consumer trust through their own marketing.

Saatchi & Saatchi has recently formed a collaborative marketing division. They fully embrace the potential of the retail store as a marketing medium and view collaborative marketing between manufacturer and retailer as necessary, strategic, and long-term in nature.

To ensure and support its global customer development strategy, P&G has established market development organizations (MDOs), which are responsible for combining the plans of P&G's seven global business units into a single integrated program on a customer-specific basis including marketing strategy, customer development, and external relations.

In addition, global retailers such as Wal-Mart, Carrefour, Ahold, Metro, and Costco have recently begun to request global strategic and operational support from their vendors. Ahold recently conducted a global promotion across 4,000 stores in 17 countries to 30 million consumers.

To ensure repeat in-store visits, traditional retailers will need to increase their focus on building consumer loyalty. Consequently, Best Buy and Wal-Mart are already working closely with top suppliers to establish a Web presence and directly link online and on-land marketing activities.

Ralston Purina has been developing successful collaborative relationship marketing programs with consumers and retailers since 1990; Ralston Purina and iVillage recently announced a major content initiative tailored for women who own pets. Purina overlaps its own database with that of a grocery partner, such as Safeway. Matching households receive direct marketing incentives to visit the grocery partner's local store to purchase Purina O.N.E. Purina's O.N.E. product manager has stated that one of the most valuable uses of the database has been an improved understanding of how to target all of the communication vehicles used to market the brand. In addition, the relationship marketing has dramatically reduced the cost of consumer retention.

E-Launch

Typically, a new product launch is preceded by several years and upwards of $30 million in efforts that include strategic consumer research, consumer segmentation, competitive positioning, product design optimization, advertising development, test marketing, recipe re-formulation, factory scale-up, and more.

Recently, Microsoft and Best Buy announced a strategic alliance to develop and launch new Microsoft products within the Best Buy on-land and online franchise.

With the development of Shoplink.com, Homegrocer.com, Webvan.com, Wal-Mart.com, Petsmart.com, and others, there is now a significant capability to introduce new products without having to first fill the pipeline with finished goods inventory and to better focus trial and repeat marketing incentives.

As a further illustration of marketing synergies to be gained, Whiskas Pouches was launched on-air with a powerful link to its Web site for direct requests from consumers for samples as well as PC downloading of a streaming video commercial.

Web-Enabled Trading

Productivity studies have consistently shown that for CPG manufacturers using direct or broker sales and merchandising forces, 35% to 60% of working labor is applied to the paperwork associated with orders, invoices, deductions, and trade funds administration. Several ECR initiatives have sought to address improved transaction efficiency between trading partners. Examples include EDI, UCS II, invoice accuracy, collaborative planning and forecasting (CPFR), and efficient promotion.

Several new industry consortiums have been developed a range of Web-enabled standards. These include RosettaNet, UCCNet, and Microsoft BizTalk. These new Web standards address all of the core electronic data interchange and electronic funds transfer functions as well as utilize improved Web and database capabilities.

In the past 12 to 24 months, several progressive industry players have conducted two "scan-based trading" pilots. One of the key enablers of scan-based trading is synchronization of item/SKU and pricing information between trading partners.

For DSD distributors, concepts such as scan-based trading offer the potential of a 30% improvement in route productivity resulting from reduced back-door receiving activities.

The Phillip Morris Masters Program and the P&G "go live" formulas are examples of programs that are less complex and more automated.

> ***E-business is not the new thing, it's the next thing. It's the natural progression of business and trading practices that strive for consumer loyalty, customer satisfaction, competitive advantage, and sustainable growth and profitability.***

In the U.K., Sainsbury has worked with Nestlé to run promotions using a new Internet-based information sharing and collaboration system. Sainsbury provides this system at no cost to over 3,000 vendors. The system allows all of Sainsbury's suppliers to work with buyers in planning, executing, and managing promotions. At any given point in time, their store system is conducting over 4,000 promotional activities or events.

In the U.S., viaLink offers a Web-based service for item catalogs and pricing synchronization. Early adopters of viaLink's central (and extra-net) hub include Kraft USA, Coors, and Certified

FUTURE VISION: THE SMART SUPPLY CHAIN

Leaders have a Smart Supply Chain - extending their supply chain network in both directions with customers and suppliers. The results:

- Enhance ROA by improving materials/asset turns and managing down costs; customers have a 25% more efficient ordering process.
- Receive more than 90% of its product orders via the Internet.
- Reduced new product time to volume by three months, enhancing revenues by more that $200 million annually.
- Created a scalable system that enabled savings of $20 million annually through reduction in freight costs, revenue generation and reduced inventory.
- Improved accurate ordering and forecasting, which helped to increase customer satisfaction by 25%, while reducing the use of customer service reps.

Figure 3.0 **Two Models for Getting Started**

Grocers. In addition, a number of wholesalers and distributors, including McLane and Fleming, now offer Web-based information services to their retail base.

Content Asset Management

As stated previously, most of the consumer products marketplace's Web and e-commerce development has been focused on the business-to-consumer or "front-of-screen" activities.

Even the more established consumer shopping sites have not yet addressed the opportunity for Web-enabled business-to-business activities with their vendors.

Online grocers like ShopLink obtain item information and packaging graphics by either downloading this information manually from vendor sites, or through traditional delivery of materials by the vendor sales representatives. Due to time factors and other conditions, online retailers have needed to undertake their own photography of vendor brands in order to populate their online shopping catalog.

Interestingly, innovative and highly progressive on-land retailers such as HEB and Ahold are currently developing self-service and self-loading systems to be required of their vendors.

A typical CPG manufacturer creating advertising slicks, product packaging photography, promotional materials, and merchandising materials has annual digital media spending in the range of one to three percent of total gross sales volume. For a billion-dollar CPG brand, these go-to-market digital assets represent an investment of $10 million to $30 million annually.

Current Internet technology already exists to provide easy-to-implement, rapid development, integrated, and inexpensive solutions to manage these assets. "Content" databases, standards, and "push" communications can now fully automate the wide deployment and delivery of digital audio, images, video, and multi-media from manufacturers to retailers.

Infomediaries, Robots, and Agents

Internet technology takes away the barriers of time and space on many levels – individual-to-individual, member-to-group, group-to-group, B2C, B2B, headquarters-to-associate, headquarters-to-store, and others.

Any "cell" or "system" can instantly and simultaneously interact with any other element in the network. This interaction can involve potentially sensitive information (e.g., credit and credit card information) and significant online search time and effort.

For today's CPG marketplace, brokers are key intermediaries in the deal, the order, and the merchandising. Travel, automobile retailing, mortgage loans, and insurance are examples of industries that are currently being revolutionized by new kinds of online agents and robots. With the Internet, key functions such as price setting, coordinating exchange, arbitrage, and market making could now be accomplished globally and automatically.

In several states (e.g., Massachusetts and California), there have been a number of legislative efforts aimed at protecting consumer privacy for e-mail addresses and related information.

One area of public concern involves the integration of point-of-sale, media, shopper loyalty, household panel, and online information (and behavior). A common feature of many community and content sites is a voluntary "opt-in" step where individuals authorize in advance subsequent one-to-one communications as well as behind-the-scenes information sharing. Info-mediaries, who "know all about the consumer" and act as their exclusive agent when dealing with retailers or manufacturers, will be created. These agents will keep private information about individuals.

On-land retailers such as Petsmart and Wal-Mart are now offering a broad array of online services targeted at their unique shopper base. For Wal-Mart, these services include personal shopping aids, travel, a real estate company, an online pharmacy, prescription plans for employers, Chase Mastercard, and more.