

# The NECG Edge

## NECG PREDICTS

**Business Week (10/30/00):** "CNET: Can a tech guru handle wine, too?" CNET is expanding into cars, food and other consumer goods.

**Edge:** We predict that unlike other online firms, CNET will be successful in expanding because it will be removing the biggest hurdle that stops consumers from buying -- information asymmetries between buyers and sellers.

**Fortune (10/30/00):** "Fallen idols." Venture capitalists, once considered gods of the new economy, have endorsed some of the most disastrous excesses of the dot-com era.

**Edge:** We predict that such disasters will continue to happen until VCs realize that the right people are as important as the right companies. The rise in VC investment dollars has been matched with a rise in the percentage of MBAs entering the field -- coincidence or correlation?

**Interactive Week (10/23/00):** "P&G breaks from tradition." Following its hosting of FAST, P&G has launched Web sites for 70% of its products.

**Edge:** We predict that P&G will need to rethink its net strategy and collaborate with other CPG companies in a broad scale site.

**Business 2.0 (11/14/00):** "The end of marketing." Regis McKenna claims that marketing has become such a fully integrated function in

most companies that marketing is now simply marcom.

**Edge:** NECG has found that marketing is not a completely integrated function and we predict that most companies will move to a CMO (Chief Marketing Officer) to further integrate marketing to benefit the entire organization.

**Wall Street Journal (10/16/00):** "Tesco promises to defy the odds." Britain's biggest grocery chain has embarked on an incredibly simple strategy to build a profitable (estimated 2001) online business. They simply rely on their individual stores to fulfill orders and deliveries vs. the U.S. model of mega-warehouses.

**Edge:** Not only do we disagree with most U.S. grocers who say that Tesco's plan is doomed for failure, we predict that in fact, most U.S. grocers will be emulating Tesco's strategy in 2-3 years.

**Wall Street Journal (10/18/20):** "Lands' End bets a computer will help you get the right fit." Staff reporter Rebecca Quick learned first hand what happens when a computer that has not been programmed by marketers measures you -- you get unflattering facts.

**Edge:** Levi's tried this in tech savvy San Francisco last year, and quickly learned that we hate body facts, and returned to good deceptive labeling. I have worn 36 waist Levi's for 10 years despite the extra 30 pounds I've gained over that

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time. They are called 36" loose fit -- catch up Lands' End.

**Wall Street Journal (10/20/20):** "Pepsi edges out coke in deal to buy South Beach Beverage."

**Edge:** We predict that the marriage of Pepsi and SOBE may be problematic as the two disparate business cultures may be hard to reconcile. Also, the SOBE niche may be too small for the DSD bottling system. ■

## What's Hot, What's Not

Hot!	Not!
.. Carson Daly	.. Howard Stern
.. Juice	.. Soda
.. Martin Sheen	.. Charlie Sheen
.. Fur	.. Pashmina
.. Clayton Christensen	.. Michael Porter

# MDM (Market Driven Manufacturing)

*Becoming marketing driven has been the rallying cry of the 1990's. Often ignored, though, is how to achieve MDM, the real breakthrough in competitive advantage.*

Becoming marketing driven has been the rallying cry in most boardrooms for several years. We don't know how far along most companies are in achieving this goal, although many companies segment their markets and develop products to address segment needs.

However, marketing products is only part of the customer value proposition. How a product is manufactured and delivered to a customer is also critical. In fact, all too often marketing and manufacturing are separate silos poorly linked by unreliable demand forecasts and capacity driven manufacturing scheduling.

## The Silos Dilemma

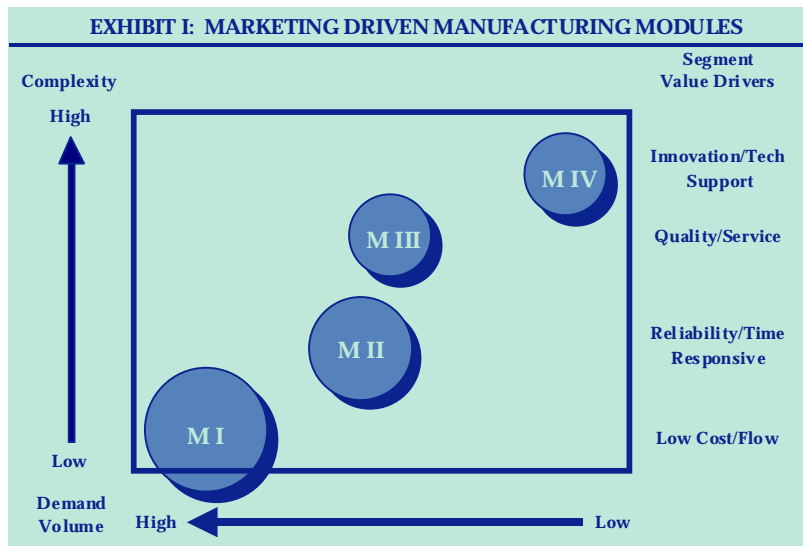
Manufacturing strategy and marketing strategy should flow from the overall business strategy, but are rarely developed jointly.

Often, the details of strategy are formed in a functional silo with few checks and balances between manufacturing and marketing. The real breakthrough, is to identify how manufacturing can become market driven and provide an important underpinning of market segment value propositions.

## What is MDM?

Simply stated, Market Driven Manufacturing means that a company organizes, systematizes, staffs, measures, equips and costs its manufacturing operations based on market segment values. More specifically it means that . . .

- Each market strategy is directly linked to individually stated manufacturing/logistics solutions.
- Market strategies focus on how a market segments across key value drivers such as product performance, reliability, time responsiveness, quality and service, innovation or technical support, and demand requirements.
- In MDM, products are pulled through the supply chain determined by specific market segment value drivers.



## The Planning Process

The first step is to identify how a market segments across key value drivers. The next step is to project production volumes

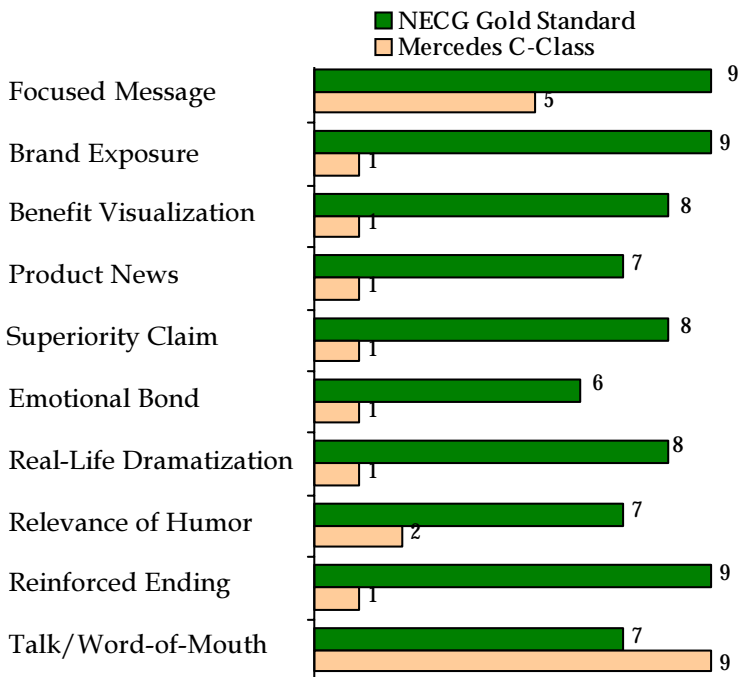
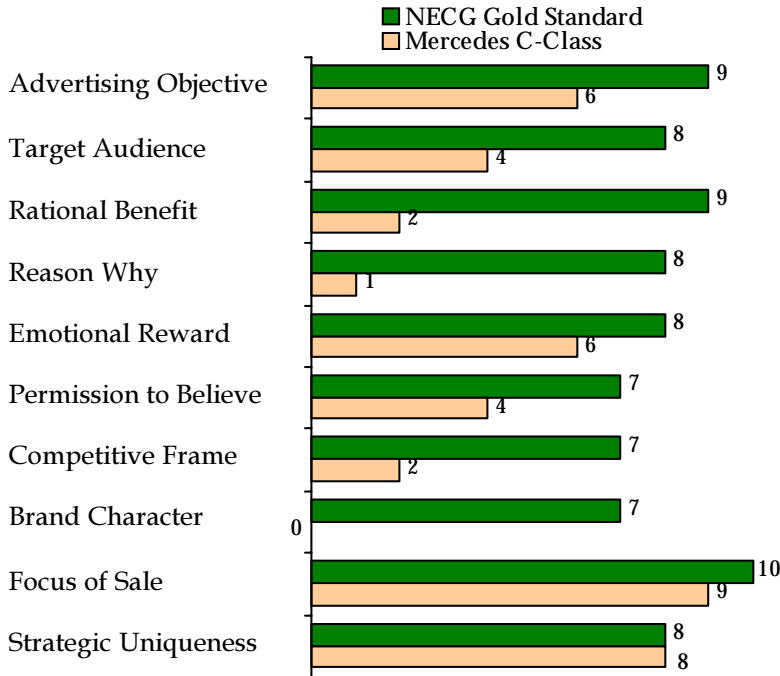
by segment and to array those segment opportunities in what we call Market Driven Manufacturing Modules, shown in Exhibit I, which depicts how different modules represent different value drivers, volume and manufacturing complexity.

(Continued on page 7)



# Mercedes C-Class Campaign

In this issue, Gary Stibel and Bob Lepre rate the new Mercedes C-Class campaign using the execution 'Folks & City Objects Love the C-Class'. The commercial shows that as the new Mercedes C-Class goes around town, everyone and everything it drives by goes ga-ga over it. Eyes pop out of people's heads, parking meters spit out coins, teapots whistle and people fly like cupid. The ad ends with the tagline -- Live. A lot.



## STIBEL ON STRATEGY

"A silly ad for a serious car. (Remember the Dick campaign for Miller Lite?)"



**NECG Gold Standard = 81/100**  
**Mercedes C-Class Campaign = 42/100**

## LEPRE ON EXECUTION

"This campaign reminds me of the ill-faded Infinity campaign -- remember? Babbling brooks, beautiful forests, barely a reason to go see, let alone buy one. Here we have teapots whistling, parking meters gawking and eyeballs bulging, how could so much say so little? A great new entry vehicle, a wash in a sea of borrowed interest advertising."



**NECG Gold Standard = 78/100**  
**Mercedes C-Class Campaign = 23/100**

# Jim Dippold

## A Product to Foster Collaboration Between Retailers and Manufacturers

### Leadership Area

☞ Category Management

### On-the-Edge Accomplishments

☞ VP, Global Marketing, ACNielsen



ACNielsen recently announced plans for an information intelligence system that will make category management significantly easier and more accessible. The product is called Category Business Planner, which is accessed through the ACNielsen Answers Web portal.

**Edge:** How did Category Business Planner start?

**JD:** We initiated a major study with retailers and manufacturers to assess their category management needs. We learned the following:

- Manufacturers and retailers alike stressed the need for a common currency/language to perform category management.
- They had major concerns over the lack of user-friendly databases and tools.
- They wanted easy access to all the information required for a business issue, not just data from one source.
- They wanted to enable and empower people in the category management process.
- They agreed that fact-based marketing and merchandizing decision making has rooted itself firmly into everyday activities, which has left out a view of the consumer.
- They needed a systematic way to bring information together to agree on a decision.

From this learning, we went back to retailers and manufacturers with a category business planning solution built upon the following:

- A common language driven from retailer-defined geographic markets, competitive channels, category structures and business practices.
- A structured business process for creating and analyzing category business plans.
- Information provided in an intuitive, decision-ready format – news headlines from which users can drill down for more detail.
- A single view into many sources of data.
- Customization so that users can tailor to their needs.

**Edge:** Describe Category Business Planner.

**JD:** By accessing Category Business Planner, manufacturers, instead of expending time, money and effort generating category plans that are not in a retailer's language, can now operate in a collaborative environment. This is a significant breakthrough that has been long overdue.

Accessed through the ACNielsen Answers Web portal, a manufacturer can pull up information for its categories defined by a specific retailer – in terms of the category itself, the retailer's trading areas, and competitive channels. Clients can personalize their own Web pages within the system, organizing information based on answers to their category management questions.

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When they log on, clients will see answers to key questions pertaining to their category's performance written as news headlines. From each headline, more detailed information can be accessed by clicking on the pages' hyperlinks.

For example, a demonstration page put together by ACNielsen for an unnamed retailer opens with the news that 71 items are performing below fair share, representing a dollar opportunity of \$613,234. It goes on to report that for 45 items sales growth is lagging behind the market, for 80 items the non-promoted price is higher than the remaining market, and for 70 items the percent of dollar sales is less than the remaining market. Users obtain further information by drilling down - clicking through on the Web page's hyperlinks.

**Edge:** How will this product revolutionize category management?

**JD:** We know that our clients want to spend less time searching for and organizing information. This system was designed to speed decision making by answering their most important marketing questions in an incredibly user-friendly, intuitive environment. Thus, we have changed the business planning process with Category Business Planner from "data gathering and manipulation" to "analysis and evaluation" (see Exhibit I).

Instead of only a select few being able to participate in true category management, this solution opens it up for all to participate. You don't have to be a technical expert or be dependent upon a technician to run the system.

Instead of the process being run occasionally and producing static reports, Category Business Planner makes the latest category management information available continuously. Category

Business Planner turns a days-long process into a minutes-long process. Finally, instead of the huge expense of each retailer building this type of system, we have delivered an affordable system to enable collaboration between all trading partners and make category management available to more manufacturers than ever.

**Edge:** What has been the reaction to Category Business Planner from your clients?

**JD:** Reaction from our retailer and manufacturer advisory council groups has been outstanding.

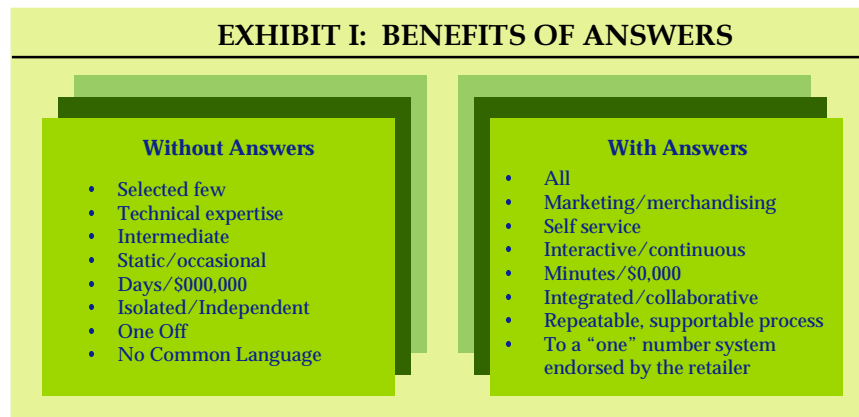
Brad Anderson, Category Management Director, Nestlé USA said, "Common language between manufacturer and retailer is very important so that we can actually spend time trying to get at the decisions rather than trying to collect the information". Too much time in the past

has been spent on trying to collect data, match it together, make sure that we're both on the same page and then by the time we actually get to decisions and implementations, there's no time left. So this helps facilitate a way for everybody to look at the category

the same way while losing extraneous activities.

**Edge:** How does Category Business Planner fit into ACNielsen overall mission?

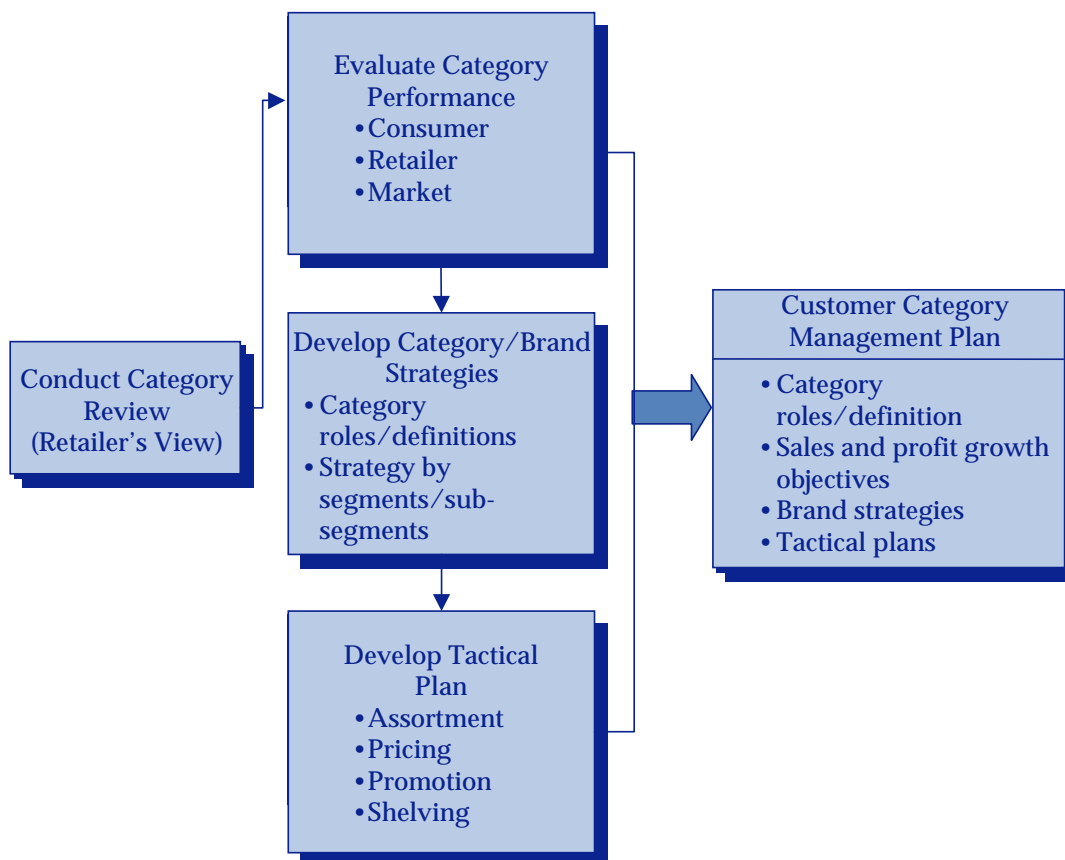
**JD:** It helps ACNielsen achieve its goal of being the world leader in market research. In the old days, we were a data provider. Today, we are a partner in helping our clients solve various business issues, and this tool reinforces that. With Category Business Planner, and the ACNielsen Answers Web portal through which they access it, we are providing more than just information and analysis. As the names implies, we're providing answers to some of their most important business questions. ■



# Category Management Execution

Category Management is dead! Don't panic though, as it has been reincarnated as Category Management Execution, utilizing only those tools that specifically drive profitability for both retailers and manufacturers. Gone is the "8 step process" which encompasses cumbersome techniques such as "bubble charts" and GMROI calculations. And gone are the laborious tasks of developing category scorecards. What manufacturers and retailers are looking for is category tactics, e.g., efficient assortment and category strategy.

Global, leading-edge retailers are looking for practical recommendations from manufacturers on how to grow their categories profitably: recommendations such as shelf management, pricing, efficient assortment and merchandising tactics. Importantly, Category Management Execution plans are extremely helpful in galvanizing salesforces to proactively sell.



## Priceline -- R.I.P.

*Kevin Coupe writes about the collapse of the 'name your own price for groceries and gasoline' arm of Priceline.*

While Priceline's business model may have been flawed, the company is not the only one to blame because the supermarket industry did buy the concept. Too often, retailers who couldn't figure out how best to approach the notion of e-commerce looked at

Priceline as a cheap and easy solution to all their problems. So they signed on. And hoped their problems were over. But Priceline never was an e-commerce solution. It was a high-tech couponing scheme, albeit one that diminished the entire concept of branding.

*Read the rest of the article at [www.ideabeat.com](http://www.ideabeat.com)*

*(Continued from page 2)*

An example of the planning model in Exhibit I is the category of frozen foods. Module I would be products sold through supermarkets that represent high value, high flow and low cost.

The price club channel, as shown by II, requires lower production of unique products, with high responsiveness and inventory reliability. IV could be specialty items designed for new cooking appliances and sold to restaurants at high margins. In conclusion, the manufacturing solutions change for each module in direct response to the market segment values.

**Demand Pull**

MDM companies follow the philosophy of demand pull which means:

- Making decisions for capacity utilization based on demand from the market, not when manufacturing has open capacity or underutilized facilities, or when it needs to absorb costs.
- Reducing the reliance on forecasting (guessing) of demand to the point where only “how much maximum capacity” will be provided and not using forecasts to drive inventory replenishment.
- Designing the make/supply network to eliminate time. Time is lost in non-value added de-coupling points (inventory) which reduce the agility of the enterprise in responding on demand, now.
- Viewing inventory as a mistake. Inventory is cash out of the bank where it can not be used for profitable work.

*Manufacturing is not market driven if you cannot link market segment value drivers with operations.*

**Is Your Manufacturing Market Driven?**

It is fairly simple to tell whether or not your manufacturing is market driven. First, ask your marketing executive to name the FIVE major segment values which drive the market for each segment you serve.

Then, ask the marketing executive along with the manufacturing executive to jointly name the manufacturing and distribution characteristics which generate the values the market segment seeks.

- How are the manufacturing resources deployed by market segment?
- What control systems are in place to specifically address key market value drivers?
- How are product rationalization decisions made in manufacturing/marketing?
- Is complexity measured and set to meet the market demand in the rationalization process?
- Are individual market segments considered individually?

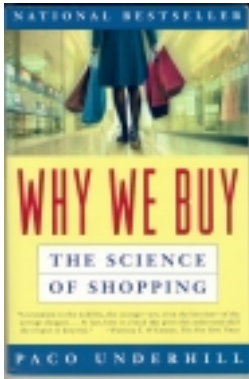
Thus, your manufacturing is not market driven if your executives cannot readily identify the market value drivers for each segment served and cannot name the manufacturing and distribution characteristics which provide and control the values.

MDM can help managers determine whether they are operating to meet demand in a pull process philosophy or to a contrived force such as inventory targets or cost targets in a push philosophy of manufacturing management.

Push versus pull has been discussed in supply chain articles for many years. However, it is only when a company is market driven that the discussion is finally focused on the key issues. Demand for value in each segment drives everyone to be a pull process. Push is forcing your own values on the customer, while pull is providing the customer the values he/she desires. ■

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*This article was written by John Ruf, a Partner at NECG. Feel free to e-mail him your comments at [jjr@thenecg.com](mailto:jjr@thenecg.com) or call him at 203-226-9200.*



# “Why We Buy”

-- Paco Underhill

**Amazon Ranking**  
 ★★☆☆<sup>1</sup>/<sub>2</sub>

**NECG Edge Ranking**  
 ★★☆☆

Why We Buy does not bring any revolutionary insight to readers or the marketing community as a whole, but it does provide a very valuable reminder to all of us strategizing away on the top floor that we need to get out of the office and go shopping. You’ll find that your new merchandising and promotional programs become much more practical in scope and execution.

### What is the “Science of Shopping”?

Observing how consumers shop in order to provide retailers with data to maximize their sales.

### What retailers don’t know.

- Conversion rate: Marketing, advertising, promotion, and location can bring shoppers in, but it’s the merchandise, the employees, and the store itself that must turn them into buyers.
- Shopping time: The longer they shop, the more they buy.
- Interception rate: The percent of customers who have some contact with an employee.
- Waiting time: The #1 influence on customer satisfaction.

### How they shop - The mechanics of shopping.

- The twilight or transition zone: The area when you first walk into a store.
- Shoppers have only two hands: How to keep customers’ hands free.
- How to read a sign: Smart sign placement must interrupt the shopper’s line of vision.

### How shoppers are different - The demographics of shopping.

- Men are from Sear’s hardware, women are from Bloomingdale’s.
- If you can read this you’re too young: The population is aging and we need to accommodate them.
- Kids: Kids go everywhere.

### See me, feel me, touch me, buy me - The dynamics of shopping.

- What do shoppers love: Touch, mirrors, discovery, talking, recognition, bargains.
- What do shoppers hate: Too many mirrors, lines, asking dumb questions, goods out of stock. ■

**The Consultant**

Lack of scalable commerce engines and content management tools has reduced our collaborative interaction with consumers.

**The Client**

I think he means we need a new Web site.

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