

The NECG Edge

NECG PREDICTS

Business 2.0 (12/26/00): Email takes center stage. Email is expected to become more of a core advertising medium as it is cheap (25¢ each) and effective (11.5% response rate versus .55% for banner ads).

Edge: We predict email will become an even more cluttered medium than banner ads, thus diluting its effectiveness, and will lead to new applications enabling consumers to “screen” out unwanted promotions.

Business 2.0 (12/15/00): Online retail at a glance: Does it have a chance? The article argues that many online retailers may not be around for the 2001 holiday season.

Edge: We predict that an online retail shakeout will continue indefinitely, similar to “bricks and mortar” retailing, e.g., Montgomery Ward and Bradlees liquidations. However, online retailing will continue to grow exponentially -- it grew 64% this holiday season, in spite of the shakeout!

Wall Street Journal (01/04/01): Starbucks joins Microsoft in deal to serve the Web with its coffee. The service will likely be designed to favor paying subscribers, and non-paying Starbucks customers will probably have access to limited features.

Edge: Although we don’t believe this new service will help Starbucks sell more lattes, we do think that it will bring Starbucks back to its roots as a hip, edgy, happening kind of place. This definitely makes more sense than a Starbucks on-line furnishing venture.

Advertising Age (12/11/00): Marketer of the year - TARGET. With an in-house advertising department that uses multiple agencies, a new major American brand icon was established, the Target “Bull’s Eye”.

Edge: We predict this campaign will serve as a model of how to quickly build a brand with coop dollars, but most firms that attempt to do the same will fall far short, and that Target will overrun their campaign much the way Gap has overrun their dancing campaign.

Brandweek (01/01/01): Maytag cycles a pitchman. Leo Burnett and Maytag are rolling out a new hipper, younger, active Maytag repairman who frantically tests Maytag’s durability claims.

Edge: We think if done right, this campaign would give the Maytag brand image some needed contemporizing. If they can make it fun, high-tech, high fashion, but the most reliable, they will turn the spin cycle to high.

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USA Today (01/03/01): Apple cuts prices on computer products. Apple’s 500 megahertz G4 server drops \$1,000, the 450 megahertz Apple Cube is cut \$300.

Edge: We predict that if Apple does not invent a new speed rating method/term, they will continue to fall behind in the public’s perception of computer speed wars and their sales numbers will follow. ■

What’s Hot, What’s Not

Hot!	Not!
.. Tivo	.. TV Commercials
.. Hillary	.. Bill
.. x-Mania	.. i-Mania
.. mCommerce (mobile)	.. eCommerce
.. Recession	.. New Economy

“At a Loss for Words?”

We've all been in business meetings or situations where we wished we had the perfect phrase to respond to someone in order to capture the essence of the moment. Look no further, because The Edge brings you the master list.

A few years ago NECG created a tradition to catalog great comments, fun comments, and just plain outrageous comments in the business world.

Here are some of the comments we've collected from a sampling of friends, writers and associates. We encourage you to comment on these or to e-mail your own list including the context in which you heard them.

People Watching

The fine art of self-aggrandizement and the friendly put-down.

- If you're a self-made person . . . be careful not to worship your creator.
- He hasn't an enemy in the world and none of his friends like him.
- I was fine until his dogma started chasing my karma.
- Even a stopped clock is right twice a day.
- His family tree doesn't fork.
- He has spent too many years in military school.
- I may have been born at night, but it wasn't last night.
- When asked to whom a presentation was to be given in a room with twelve participants, the CEO responded: "Give the presentation to me, everyone else is here just to keep the room from flying away".
- Empty barrels make the most noise.
- The graveyard is full of irreplaceable people.
- This is your life. It is only a test. If it was the real thing, you would have received better instructions.

When asked to whom a presentation was to be given in a room with twelve participants, the CEO responded: "Give the presentation to me, everyone else is here just to keep the room from flying away".

- It wasn't that he shot himself in the foot that was so bad . . . it was the speed with which he reloaded.
- He's like the dog chasing the car; what's he going to do when he catches it.
- He's down in the engine room painting the boiler, and the ship is sinking.
- He shoots from the lip.
- Jack Daniels makes his list of "most admired people".

Organization Inertia

Surprisingly, organization study is one of the more fascinating sciences of contemporary culture.

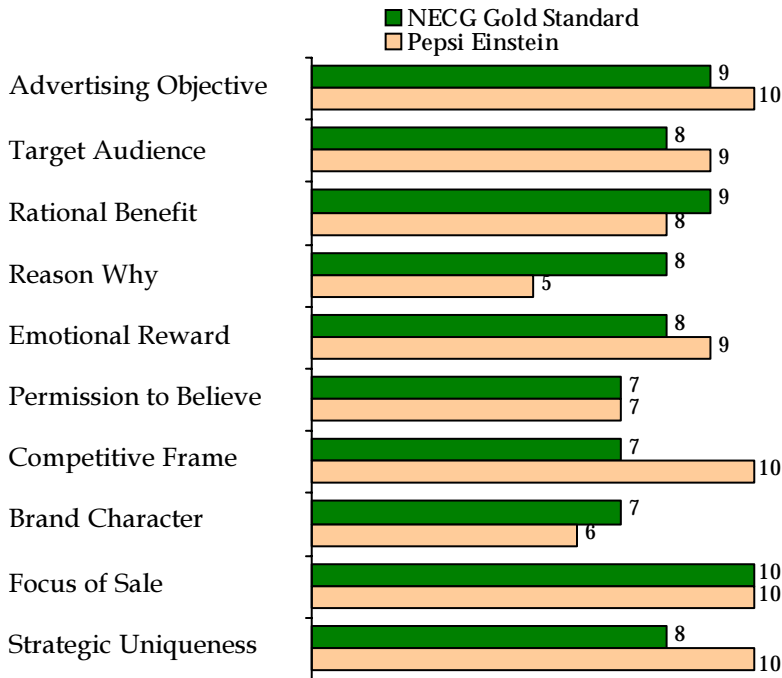
- The most endangered species in the world today is the sacred cow.
- Are our sacred cows still producing milk?
- When smashing monuments, save the pedestals – they always come in handy.
- If you have four flat tires and you rotate them, you still have four flat tires.
- Organizational structure is like the skin of a snake – it has to be shed as the snake grows.
- Make sure you load the wagon before you start whipping the donkey.
- Companies will go to any expense to keep yesterday alive and well.
- Be careful of the words you say, keep them soft and sweet, you'll never know from day to day which ones you'll eat.
- Never try to teach a pig to sing – it wastes your time and it annoys the pig.

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Pepsi Einstein Campaign

In this issue, Gary Stibel and Bob Lepre rate a Pepsi-Cola commercial featuring Albert Einstein (you can watch it on www.adcritic.com). The ad starts with Einstein standing in front of Coke and Pepsi vending machines, pondering over how to choose between the two. His genius brain starts by analyzing the molecular structures of Coke and Pepsi, but his logic soon leads him to the little Pepsi girl who mocks his inability to make the decision by saying, "duh"! The scene cuts back to Einstein, who slaps his head in embarrassment on not being able to solve such a simple problem. He gets a Pepsi from the vending machine and says, "A no-brainer" and the ad ends with 'The Joy of Cola' Pepsi jingle.

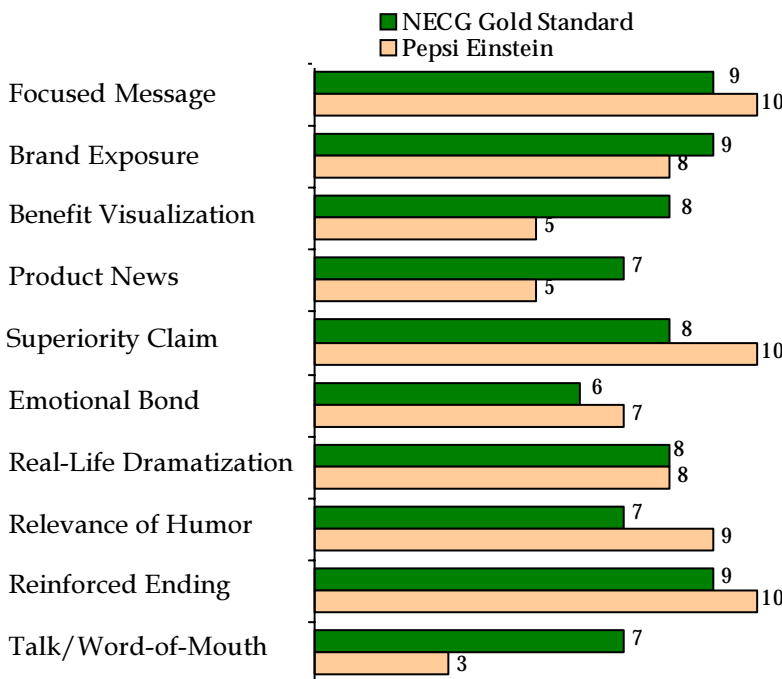


STIBEL ON STRATEGY

"The magic is back. How better to communicate superiority where support is modest or minimal! As Einstein proved:
 $E(\text{Effectiveness}) = M(\text{Memorable}) \times C(\text{Competitive})^2$ "




NECG Gold Standard = 81/100
Pepsi Einstein Campaign = 84/100



LEPRE ON EXECUTION

"Often times 'historical character spots' don't work. Here's a spot where the use of Einstein is woven into the key message. Einstein creates a 'relevant interest' bedrock for this spot in a charming, and attention getting way. Pepsi hits a nuclear home run."



NECG Gold Standard = 78/100
Pepsi Einstein Campaign = 75/100

Andrew Shore

The Challenges Facing CPG Companies

We recently spoke with Andrew Shore on his views on the CPG (Consumer Package Goods) industry. Andrew is Managing Director, Cosmetics and Household Products Research at Deutsche Banc Alex. Brown, and is widely regarded as the best analyst following the CPG industry on Wall Street.



Andrew Shore

Edge: What major transformational changes have you seen at CPG companies?

AS: The biggest change I've seen in 10 years was ECR. Not to say, by the way, that all companies have done it or that as an industry initiative it was successful. Those companies who haven't embraced any of the components of ECR will never get the benefits. And ECR was so controversial. Remember back in 1993 when Procter began EDLP? Even though it tested this new pricing strategy on certain categories in 1991, it became 100% transparent within the organization by 1993. However, that was a difficult time for P&G. Retailers like Big Bear in California despised P&G's new pricing policy so much they deleted its products. Other retailers followed. Clearly, that was a period that was hard for Procter, and the industry, as it went through eight consecutive quarters of down volumes and market shares in the U.S.

Now, how many companies do you know that would actually believe, with an almost religious passion, that their strategy was right, and not capitulate? Looking back, it was a defining moment because companies like Lever and Colgate said they were winning the market share game because retailers were taking more of their products in protest to P&G. But I remember several members of P&G management saying, "Andrew, mark my words. It's only a matter of time before everybody capitulates. It's the right move for the industry." That was typical P&G hubris. But guess what?

By 1994 everybody capitulated. P&G was hurt the most because it was the first to swallow the pill. It was a company and industry transforming event. And P&G ultimately went through the greatest transformation and period of recovery. Procter pulled off 15% earnings growth from '93 to '97 on only 5% sales growth. We've clearly seen the physical restructuring of the supply chain, the closing of warehouses, and the elimination of functional silos.

Another theme that is in the most embryonic stage of development is a complete and fundamental shift away from a supply base model to a demand base model. A demand base model revolves around both a fundamental dissolution of conventional mass marketing to more micro-marketing, and particularly, access to the best customer.

The top 10% of customers for a retailer accounts for about 42% of the retailer's net sales. The next 20% does about 30%, so the top 30% account for about 72% of retailer sales. Now if a retailer were to ever lose the top 10% of their customer base, that would theoretically bankrupt the retailer because fixed costs are covered by the top 10%. And that's why if you do conventional Economic Value Added (EVA) or Cash Flow Return on Investment (CFROI) analyses of some of the smaller companies, like Chattam, Dial, Church & Dwight, Playtex or Revlon, you get a self-liquidating model because most of them aren't even earning their cost of capital. And that's why the world will

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change. If you do not have access to the best customers, and you're not earning your cost of capital, I don't see how you make it.

When P&G began this trade promotion move back in '91, its gap of gross to net sales was probably 30%. Today, its gross to net is less than 10%. At the other end of the spectrum is a company like Church & Dwight. For example, the cost of just turning on the lights for Church & Dwight is about 22% of sales (the gap between gross to net sales plus the trade promotion component within the advertising and promotion line). That number five years ago was 17%. It has moved up for many of the smaller players and down for many of the larger players. That's just a cost of playing in the big leagues.

In addition, some retailers are reconfiguring the center aisle. That's going to increase the cost of shelf space for some of the tertiary players. Consider that only four-tenths of one percent of all brands ever introduced generated sales of \$100 million, that 92% of all brands ever introduced don't even generate sales of \$15-20MM, and that the average cost of introducing a brand in personal care and household products is \$17-19MM. Throw in the fact that 72% of brands die and you can see how difficult and expensive it is to grow. I don't know if you play craps. But why would you play if those were your odds?

EDGE: Why do you think everyone makes the same mistake over and over again?

AS: I think it's changing, because retailers are a lot smarter than they've ever been. Also, the stock market is forcing companies to make smarter decisions. EVA or cash flow return on investment has become widely embraced on Wall Street. We (Wall Street folks) kill companies for egregiously wasting capital. A lot of what's going on in the consumer industry right now is not terribly different than the concept of an athlete who stayed in a sport too long. No athlete, or company, wants to believe that they aren't as good as they once were. It's been hard for managements to adjust to a new reality.

EDGE: From a shareholder's perspective, what separates leading CPG companies from the rest of the pack?

AS: What really separates these companies in the minds of shareholders is innovation and nobody innovates better than Procter. I just visited P&G in Geneva. It's hard to believe P&G didn't feel even more pain than it did given what it went through. With price harmonization, trade term alignments, supply chain reconfiguration, inventory reductions, asset base consolidations, a terrible Euro, rising raw materials and the most aggressive new product cycle in its history (where it introduced more new products in Europe in 18 months than they did in 5 years)...this was the "Perfect Storm."

EDGE: How about Colgate Total, how did they let that happen?

AS: Well, P&G didn't really let it happen. The FDA did. P&G actually had an identical product to Total called Crest Ultra. It used the same active ingredient as Total called Triclosan. Triclosan is an antibacterial that is used in many products like antiperspirants. There is a good deal of data on Triclosan in terms of its safety record, but not for use in the mouth. Colgate had the safety record established because the product had been sold in international markets for a couple of years. Colgate was several years ahead of P&G with the FDA. The day P&G's salesforce began their calls for Crest Ultra is the day the FDA told P&G to no longer make the call.

EDGE: Every CPG company talks about growth, but is it really a zero-sum game?

AS: I think it is absolutely a zero-sum game if you don't innovate. I mean let's face it, there's not a lot of white space left anywhere.

EDGE: Can you think of anything that is a true innovation?

AS: I think Febreze was a great chemical innovation. The category has now begun to slow so P&G is coming out with different flankers. But Febreze still managed to rack up global sales in its first year of roughly \$400 million. Not too shabby.

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Leadership

Easy to say, hard to do . . . well.

- The difference between a visionary and a heretic is about one year.
- Style is knowing who you are, what you want to say, and not giving a damn.
- Most of the things worth doing in this world had been declared impossible before they were done.
- When you find somebody doing the wrong thing . . . don't motivate them!
- The one unmatched asset is the ability to yawn with your mouth closed.
- Fall on the sword on this one for me, buddy.
- A desk is a dangerous place from which to view the world.
- Am I the only one in the car looking for the brake?
- He may have his hand on the tiller, but it's (the tiller) not connected to anything.
- Rule 13 – when placed in command – take charge (General Norman Schwarzkopf).
- Rule 14 – do what is right (General Norman Schwarzkopf).
- A good leader tells what's to be done, not how it's to be done.
- Greed has dug more graves than shovels.

When asked a tough question about his plans, he replied -- "I can't wait to hear what I'm about to say".

Marketing

The function first to claim fame, first to lose its budget, and last to be understood.

- Marketing is not a democracy.
- Marketing is very easy. The answers are always the same, only the questions change.
- Trust only movement. Life happens at the level of events, not words.
- You don't ask a juggler which ball is his highest priority. Success is to do it all.
- We need an elegant solution. Check that; we need an elephant solution.

- International marketing is like herding fish.
- Since we can't decide between A or B, let's create a hybrid.
- If we get nine women pregnant all at once, we'd get a baby in one month.
- Illegitimi non-carborundum (don't let the bastards grind you down).
- Speeches are like steerhorns; a point here, a point there, and a lot of bull in between.

Planning Process

The continuing search for perfecting the balance of thought and action.

- Planning isn't everything, it's the only thing.
- Our planning process is just like laying track in front of the engine.
- When you come to the fork in the road, take it.
- Remember that whatever you do in life, 90% of it is half mental.
 - While we plot the perfect crime, let's knock over a few gas stations.
 - Effective people are not problem minded; they're opportunity minded.
 - We thought we were here to drain the swamp and now we are up to our asses in alligators.
- We're such fast-followers, we might even be leading.
- Let's stop shooting behind the duck.
- We don't know which direction we're headed in, but we're sure making good time!
- Our target audience is people with lips.
- Having lost sight of our objective, we've redoubled our efforts.
- There's a light at the end of the tunnel, but it's a goddamn train!
- The nice thing about statistics is that you can torture them 'till they confess.
- Ready, fire, aim!
- When asked a tough question about his plans, he replied -- "I can't wait to hear what I'm about to say". ■

This article was written by David Stone, a Partner at NECG. Feel free to e-mail him your comments at dhlstone@aol.com or call him at 203-226-9200.

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Another example of innovation was disinfectant wipes, whether it was Clorox, Lysol or Mr. Clean. Even Dial and Purell within the hand sanitizer category—the clear hand sanitizing soap that doesn't require water, was an innovation.

So without innovation it is certainly a zero sum game. Let's look at Purex detergent. Dial tried to upscale a brand from a value equity platform using Henkel's technology. They created Purex Advance at a significant premium over base Purex. Well guess what? Dial just wrote it off and dissolved the venture.

Edge: Recently, we have seen a lot of heads roll in CPG companies. What's your take on that?

AS: I think we're looking at a stock market environment that does not deal kindly with mishap for too long. I believe Durk Jager, P&G's former CEO, was told by John Pepper that he lost all the support of mid-management. And like a good Japanese soldier, he fell on his sword and resigned because he loved the company so much. Same thing with Mal Jozoff, former CEO of Dial. Mal Jozoff had two tough quarters and immediately was booted in a real Machiavellian way by Herb Baum who's now his successor. Dial's board was always afraid of potential litigation because it was still filled with many members of the "Old Dial."

EDGE: Can some of these companies survive even with massive restructuring?

AS: Bankruptcy is a legitimate business strategy. I'm not so sure Revlon can make it, although I can't picture the banks calling the debt next March. Playtex is more like a bond than a stock when you look at all the debt, so I don't know what it is going to do. Rayovac maxed out its distribution build-out in mass, and Duracell is now going ballistic after them. Life is going to get much harder for the smaller companies.

EDGE: How would you characterize the relationship between the analysts covering CPG companies and their managements?

AS: I think the relationship has changed a lot over the past decade. I remember when you waited for a company to report earnings. You then

hit speed dial and prayed you were the first one to the treasurer or CFO. It was more of a friendship, as opposed to a business relationship today. I think a lot of the relationship today is about processing a ton of information. Back then you were able to think more. Now we've become more reactionary. We also have more demands from investment banking and our retail brokers and this creates a conflict between investment banking and research.

It was just a different environment back then. If you didn't like a company's stock you could be very vocal. Now, heaven forbid you say anything bad. Managements no longer forgive you when you take away 5% of their stock value by downgrading the stock. I try and be diplomatic with everybody because I've been doing this for so long and I have great relationships. But at the end of the day, I can't worry if the management of the various companies like me; as long as my paying clients like me, I am fine.

John, you know what else has changed the relationship? Money. Today several analysts are making more money than the CEOs of these companies. It's not just from their pure research job, but from investment banking.

I think it's clouded a lot of people's judgments. If you were doing hard-core analysis and making \$75,000 or less, you'd be as critical and engaging as you wanted to be.

EDGE: Sergio Zyman's recent book, *The End of Marketing As We Know It*, suggests that traditional marketing is dead. Do you agree, or do you think it needs to be revolutionized?

AS: I believe there is, and will be, a fundamental decay in conventional mass marketing. And it needs to be revolutionized. The leaders understand that you don't have to spend as much on advertising today when you consider diffusion marketing and other methods. I don't think there's a blanket approach to marketing that works anymore. There are some real success stories like Ben & Jerry's and Krispy Kreme, who have done it in a non-traditional way. I believe non-traditional will become the tradition. ■

Gary M. Stibel

The Minefields of CPG

Gary Stibel, Founder and Principal of the New England Consulting Group was recently interviewed by John Ruf, Editor of The Edge on his views on the role of the CEO.

JJR: Gary, you were quoted in a recent Business Week article on the CEO Trap as saying that the job of the CEO has changed dramatically in the past ten years – what specifically has changed?

GMS: John, there have been many changes but three stand out -- the growing sophistication of customers, analysts and boards, the growing importance of stock and option values, and the growing pace of M&A activity.

JJR: Let's start with the first. How have customers, analysts and boards made the job of the CEO more difficult?

GMS: It all boils down to sophistication of information. Years ago, retail customers, equity analysts and board members were relatively unsophisticated about a company's operations. Most executives and buyers in retail customer organizations started their careers in retail stores. Many did not have college educations, and even those who did, rarely had graduate business degrees. Equity analysts often started their careers in research positions which were not high paying, and therefore did not attract top talent. Board members were usually "friends of the family", educators, or local "personalities" who brought little to the party other than their support of the CEO, or their ability to fill diversity quotas.

That's changed completely. The CEOs of most of our retail clients, not to mention their category managers, are usually as bright as manufacturers' representatives and often have experience on the manufacturer's side of the business. Equity analysts are often as well informed as CEOs and are occasionally paid about as much. Men and women like Andrew Shore and Nomi Ghez, are not only impossible to fool with funny numbers, but often have tougher questions than CEOs have answers. Finally, good CEOs demand that new board seats be filled with people who bring more to the party than support and diversity. Not too long ago, the Heinz board was criticized, while today Bill Johnson will not even consider a new board member who will not be as tough on Bill and his people as he is himself.

Second, this new breed of customers, analysts and board members are also armed with the facts. Retail category managers often have more data and deeper insights than even manufacturer representatives. Analysts often have sales and share data online in their offices and staffs of MBAs drilling down to understand what, where, when, and most importantly, why. Board members come to their job with better experience and training, and go on to programs like those at the Wharton School and Russell Reynolds to fine-tune their skills. They are a good CEO's best friend, and a weak CEO's worst enemy.

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- JJR:** How does this play out in a specific market situation?
- GMS:** One example is positioning. Years ago a manufacturer focused almost all of its energies on positioning a brand to the end consumer paying little attention to the retail customer, the market analyst, or the board member. Today, even a product with considerable market potential will fail if it's poorly positioned to a retail category manager. Also, brands poorly positioned to market analysts will be rewarded with a lower PE/ratio than one that has better relationships and superior positionings.
- JJR:** That is a perfect segue to your second category of change which was stock and option values.
- GMS:** Good point. Managements have always been concerned with the per share value of their common stocks and whatever options they and their management teams had. However, historically, management's ownership positions were modest and their compensations were based more on salary and much less on stock options. Today, this has reversed. Many companies encourage or insist that their managements maintain meaningful positionings in the common stock of the companies they manage and rich stock option packages are the rule rather than the exception. Further, with analysts and boards holding managements increasingly responsible for market performance, the CEO is much more likely to be focusing on achieving or surpassing earnings estimates and changes in the PE/ratio.
- JJR:** What was your point about the pace of M&A activity?
- GMS:** John, nothing is more important today than the ability to grow effectively through acquisition and/or alliances. However, many companies fall emotionally in love with acquisition candidates and occasionally end up bidding the price up by themselves. Others assume they know more about the acquisition candidate and potential synergies than they do, only to be surprised/shocked after the acquisition is consummated. Finally, most alliances disappoint because it requires more top management involvement than the partners anticipate in advance or are willing to put in after the fact. Financial and human resources go in, but usually come out frustrating all parties and discouraging more aggressive alliances.
- JJR:** How does this impact the CEO?
- GMS:** The results are dramatic. One need only look at the extraordinarily successful track record of GE and Jack Welch, or the recent restructuring of PepsiCo by Roger Enrico (spinning off their capital intensive restaurants and acquiring Tropicana, SoBe and Gatorade/Quaker) to see how value is created. Conversely, one need only look at the recently dismissed Jill Barad (Mattel), Michael Hawley (Gillette), and Bill Donaldson (Aetna), to understand how dangerous this minefield can be. ■

RETAIL IDEABEAT

NGA to Wal★Mart: Drop Dead?

Kevin Coupe writes about the NGA promoting an anti-Wal★Mart agenda for its annual convention.

The National Grocers Association (NGA) is apparently promoting its upcoming convention (1/29-2/1) with a provocative symbol of the Wal★Mart name in a red circle with a slash through it. Kevin argues that while the anti-Wal★Mart position may sell tickets to the con-

vention, it may be too defeatist. He is concerned that it may imply to independent retailers that if you don't beat Wal★Mart now, then it might be too late. Wal★Mart may also be asking manufacturers if they support an anti-Wal★Mart agenda.

Read the rest of the article at www.ideabeat.com

“Building Brandwidth”

-- Sergio Zyman and Scott Miller



Amazon Ranking



NECG Edge Ranking



Building Brandwidth is a very basic marketing how-to book for the dot.com age which many companies probably wish they had read before the recent blood bath in Silicon Valley. The book's very basic "rules" are simply elementary marketing guidelines applied to firms who have technologically driven distribution methods.

The results of such instruction are neither dramatically illuminating nor particularly helpful to more advanced marketing professionals and should, instead, be recommended to the many start-up founders who began their companies without marketing guidance.

However, Sergio Zyman, the author and a marketing consultant provides many excellent examples of companies who have marketed correctly, both in the new and old economies, which makes the book a good source of such analogues.

Special Rules for E-Business Marketing (Are They Really That Different?)

1. Brand is the most important asset of your company.
2. Get back to basics -- define consumer benefits, drive differentiation, provide excellent customer service.
 - Picasso was a master draftsman before becoming an abstract artist.
 - Revenge of the nerds effect.
3. Define a destination of the company in five years, ten years, etc. (e.g., Coke, Microsoft, AOL)
4. Create a strategy to achieve this destination -- all actions should be focused around this strategy, enhancing reaction time and allowing for speed.
5. Utilize public relations as a marketing tool constantly -- do not wait until a crisis. (e.g., Clinton's "MOD" -- masters of disaster squad)
6. Constantly refresh and innovate your products/services.
 - Merrill Lynch versus Schwab, Folgers versus Starbucks.
 - Microsoft's Usability Labs -- "the product is never finished".
7. Communicate your customer's attitudes, not your own. (e.g., 1985 Apple "Lemmings" commercial)
8. Communicate consumer, not technological, benefits. (e.g., Only 20% of consumers use programs to their full capability)
9. Make customers stay at your site -- personalize, personalize, personalize. (e.g., Five times more users return to myexcite.com than excite.com)
10. The Web is about the individual -- people are learning to expect swift customization -- use this to your advantage to create a dialogue with the consumer and to do research.
11. Create and increase usage. (e.g., AOL)
12. Make sure your product fulfills consumer needs satisfactorily -- underpromise and overdeliver. (e.g., Amazon, Banana Republic) ■

The Consultant

A silo mentality inhibits transformation of our business model to a fully integrated e-business system.

The Client

I think he means we need to work together as one company to survive.

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