

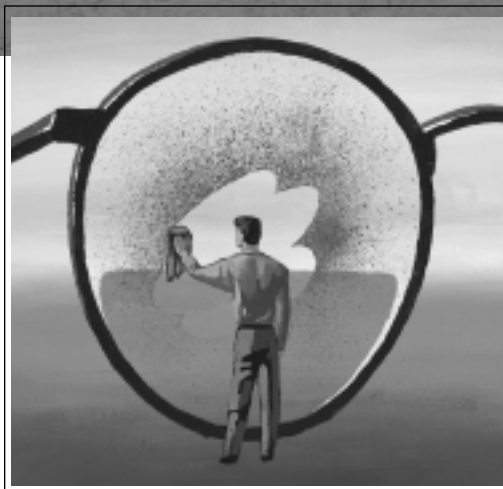
CHEMICAL MANAGEMENT

VOLUME 2, ISSUE NO. 4

R E V I E W

JULY-AUGUST 2000

Properly identifying the customer is an important part of value creation. Through the process of market mapping, a system of identifying all manufacturers, consumers, and all the channels between them, it is possible to identify



players who have the most power influence over whether a product will be purchased or not. Once these influences are identified, it is crucial to manage relationships with all targets, from the end user to the direct customer.

EXAMINING THE ROLE OF CRM IN THE CHEMICALS AND PLASTICS INDUSTRIES

The old adage “the customer is king” has finally hit home in chemicals and plastics markets, but who is the customer? The traditional view that the customer is only the company that pays for what we sell and to whom we ship product is neither accurate nor appropriate in today’s chemicals and plastics markets. To be successful, in today’s chemicals and plastics industry, a manufacturer must look further down the order-to-payment process to identify many of its customers.

**BY
PHIL
ALLEN**

A useful working definition of the customer is any member of the value chain who either directly or indirectly purchases or influences the purchase of a company’s products and services. It is true that this definition sounds very broad and all encompassing. However, disagreeing with this definition reflects the very root cause of the industry’s inability to capture the true value of its offerings. Identifying the real customer—the driver of the demand for products and services—is the first key step in capturing value. It is also

the first step in effective customer relationship management.

MARKET MAPPING AND THE VALUE CHAIN

The process of market mapping is a mechanism that can be used to identify a given company’s customers. A market map is a picture of the market for a set of products and services that meet the needs of a group or groups of customers. A market map can be drawn at different levels of detail and from different perspectives, depending upon what we are seeking to discover. Whatever the perspective or level of detail, the market map shows all the manufacturers and all the consumers and all the channels between those manufacturers and consumers as outlined in Figure 1.

To illustrate how a market map works in practice, consider an example for polyurethane foam products as outlined in Figure 2.

Even from this simplified market map and using the original definition, a company’s customers are more numerous and more diverse than previously thought. Although in some cases, such as architects or building regulators, the customer may never purchase that company’s

products, they nevertheless may exert a powerful influence over whether a company’s products will be purchased or not.

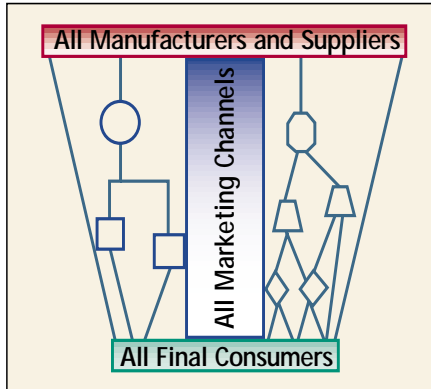
The key point is that all of these customers at different levels in the value chain impact the demand for products and services to a greater or lesser extent. To capture the true value for our offerings, we must understand the value of those offerings in fulfilling the needs of the customer.

Understanding the value chain is also important in quantifying the value of a company’s product and service offerings to the customer, and in understanding which of these customers have the most impact and influence on the demand for products and services as outlined in Figure 3. The key point for many chemicals and plastics producers is to identify the “end user,” or the last customer in the value chain that recognizes or derives value from a company’s products and services.

Returning to the market map of the polyurethane foam products and considering the different value chains, who is the end user of the polyols and isocyanates? Which customers would discern a difference in the products and services of the manufacturers? Who would

CUSTOMER RELATIONSHIP MANAGEMENT

Market Maps Cover the Whole Market



Source: MarketAbility

Fig. 1

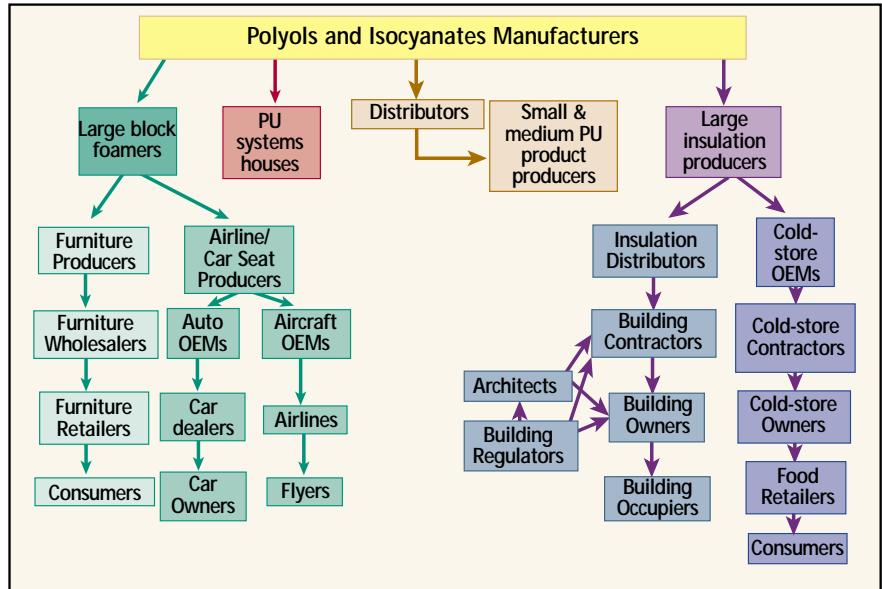
be the end user of the block foams? Who would be the end user of the seats?

The next question is, do they discern the difference in your offering or can they differentiate it from competing offerings? If the answer to this question is no, then the customer relationship is not being managed effectively.

A classic case study from the polyurethane industry is the foam insulation in a refrigerator. Who is the end user of the polyurethane foam insulation in a refrigerator? Answer: The consumer of the refrigerator—homeowner, retailer or restaurateur. Do they even know that there is polyurethane foam in the walls of their refrigerator? Do they realize that if another, less efficient insulant were used, they would either need a larger refrigerator or they would have less storage space? Who obtains the value for the polyurethane foam used for refrigeration and for maximizing refrigeration space? It is the refrigerator manufacturer, not the insulation producer nor the polyurethane manufacturer.

The market map identifies all potential customers. The value chain identifies the end user, the very important final customer in the value chain, who recognizes or derives a value from the offering. The key is to manage the relationship with all target customers at every level in the value chain from the end user back to the direct customer. In some value chains, there is also a value chain captain—the most knowledgeable, controlling and influencing member of a value chain. In most cases, a relationship should be managed with the value chain captain as well.

Market Map for Polyurethane Foam Products



Source: MarketAbility

Fig. 2

MARKET SEGMENTATION

Through market segmentation at any level in the value chain, we can identify specific groups of customers that share similar needs or behavior. By analyzing the market segments and the ability to fulfill those needs relative to a competitors' ability to do so, a company can identify market segments that it wishes to target with its offering.

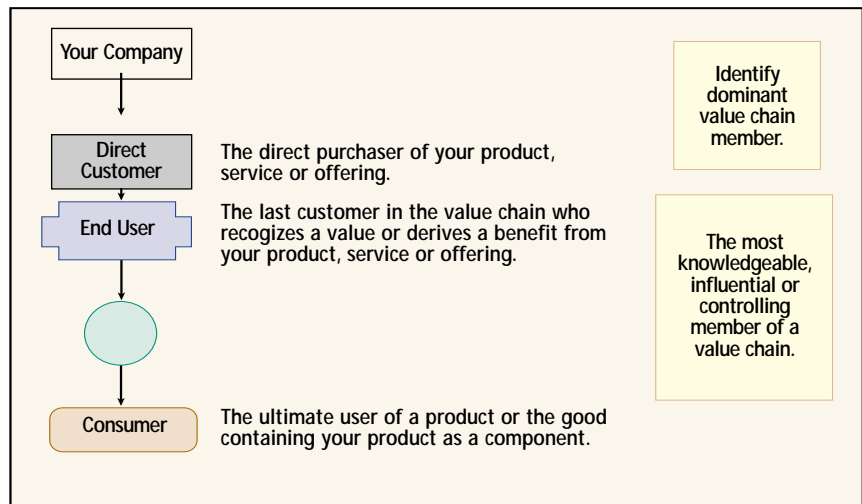
The MarketAbility Matrix is one tool which can help with the identification of tar-

get customer segments as outlined in Figure 4. To capture the maximum value from marketing and sales efforts, a company must focus attention on these target segments in order to deploy resources effectively and derive a greater return on investment.

CUSTOMER CLASSIFICATION

Most chemicals and plastics producers have undertaken some form of customer classification in the last few years. However, this activity was probably not

The Market Value Chain



Source: MarketAbility

Fig. 3

CUSTOMER RELATIONSHIP MANAGEMENT

driven by a desire to understand and better serve customers, but rather by internal corporate pressure to reduce costs and headcount. It should be clear that customer classification also provides a basis for differentiating offerings and for tailoring products to meet customer needs more specifically and accurately.

Many large chemicals and plastics producers use size as the basis for customer classification, partly because high volumes of sales are the drivers of their business profits and because handling smaller accounts is an anathema. However, perhaps a slightly more enlightened perspective might be to consider the strategic importance of the customer and the orientation of the customer towards its suppliers.

Once accounts have been classified by whatever criteria, a business model can be developed to fulfill the needs of each customer group. The business model should be different for each group of customers, reflecting the needs of the customer and their importance. Figure 5 presents a simple example.

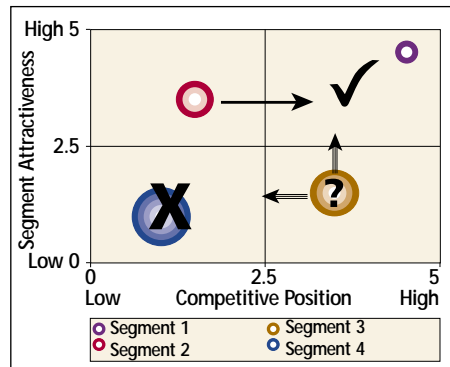
ACCOUNT MANAGEMENT AND CUSTOMER RELATIONSHIP MANAGEMENT

Account management is the classic model for managing customer relationships and tends to conjure a certain image of an experienced senior sales person with the responsibility to manage all the interfaces with a specific account. I should like to challenge this very traditional view and propose that all accounts need to be managed, and that the person responsible for account management need not always be a senior field sales manager.

Why should all customer relationships be managed? It costs anything from 5 to 20 times more to establish a new customer than to maintain and service a position with an existing customer. These numbers are not overstated, considering all the factors involved in establishing a new customer—from finding them through vetting them (i.e., credit checks) to gaining product approvals to developing the relationship.

Why does it not have to be a senior field sales manager? The customer relationship management model should be designed to best serve the needs of the customer and to reflect the strategic importance of the customer to a company. Thus, even where no field contact is provided, the

MarketAbility Matrix:
Target Segments



Source: MarketAbility

Fig. 4

customer relationship can still be managed by an office-based customer service representative. With today's technology, a customer relationship can also be managed through an electronic medium.

What, then, is the role of the customer relationship manager? The customer relationship manager role should:

- Manage call interfaces with the customer
- Understand customer needs and buying behavior
- Review needs and behavior regularly and be alert for changes
- Design and implement a value proposition to delight the customer. (This does not mean giving away valuable elements of an offering for nothing).
- Price to capture the value of offerings
- Maintain a positive differentiation from competitive offerings

The customer interface begins with awareness building through to inquiry,

advice, ordering, delivery, storage, use, disposal, invoicing and payment. The customer relationship manager must plan and manage all of these interfaces. The company offering is represented by the value proposition, which is designed to fulfill the needs of customers in a specific target segment. The customer relationship manager should design, implement and update the customer value propositions on a dynamic basis to ensure that a differentiated offering is maintained that is valued by the customer as outlined in Figure 6.

Many studies have been conducted on the lifetime profitability of customers. Generally speaking, this research has shown that the profitability of a customer correlates highly with the length of customer retention. Unfortunately, accounting systems designed primarily to serve the needs of the financial community, do not track and measure such information, and the marketing and sales community are left in the dark. Writing in the *Harvard Business Review* as long ago as 1990, Frederick F. Reichheld and W. Earl Sasser, Jr. underpinned this point with an analysis of the basis for long-term customer profitability as outlined in Figure 7.

All of this reinforces the importance of excellent customer relationship management, the need to understand customers intimately and the value of tracking and measuring customer retention and customer defections.

For any customer relationship manager in terms of understanding customer needs and behavior, there are four key questions around which to build a customer relationship dialogue:

- First, how is it done today? This is an

Customer Classification and Differentiated Business Models

Relationship Valuer	Distributor account	Senior sales	Key account management
Service Valuer	Basic service	Proactive service	Preferred service Tailored services
Product Valuer	Reactive quote	Preferred delivery	Supplier-managed inventory
Low Price	Basic offering No visits	Contract pricing	E-commerce
	Co-existence	Cooperation	Mutual dependence

Source: MarketAbility

Fig. 5

CUSTOMER RELATIONSHIP MANAGEMENT

obvious starting point that is often missed. There is no substitute for visiting the customer and seeing their world for yourself through the customer's eyes.

- Second, what does it cost? The key question is what proportion of the customer's total costs do we represent?

- Third, what's wrong with how it's done today? In other words, what keeps the customer awake at night? What is on the customer's mind? What prevents the customer from doing better business? What unmet and poorly met needs does the customer have?

- Last, what is the value of improvement? Try to find some basis for quantifying the value of improvement either through cost saving, time saving or improved efficiency.

There are many different customer relationship models being used in the chemicals industry today, ranging from the e-commerce channel through distributors to corporate account managers. In truth, there is no one single model which is more successful than others. Each model has its merits and its advantages and disadvantages.

The Value Proposition: A Differentiated Offering To Customers

Value Proposition

Target Segment

- Who is the customer?

Value

- What can we offer that they value?

Superior

- What can we offer that is better than the competition?

Profit

- How will we make money?

Banner Headline

- The elevator (lift) test
(succinct summary of your offering)

Source: MarketAbility

Fig. 6

It can be said, however, that a successful customer relationship manager should:

- Have a clear understanding of the spe-

cific and different customer needs from one segment to another

- Have chosen target customer segments, based on the attractiveness of the segment and the relative competitive strength in those segments

- Have a customized value proposition for each target customer segment

- Have an intimate understanding of the customer

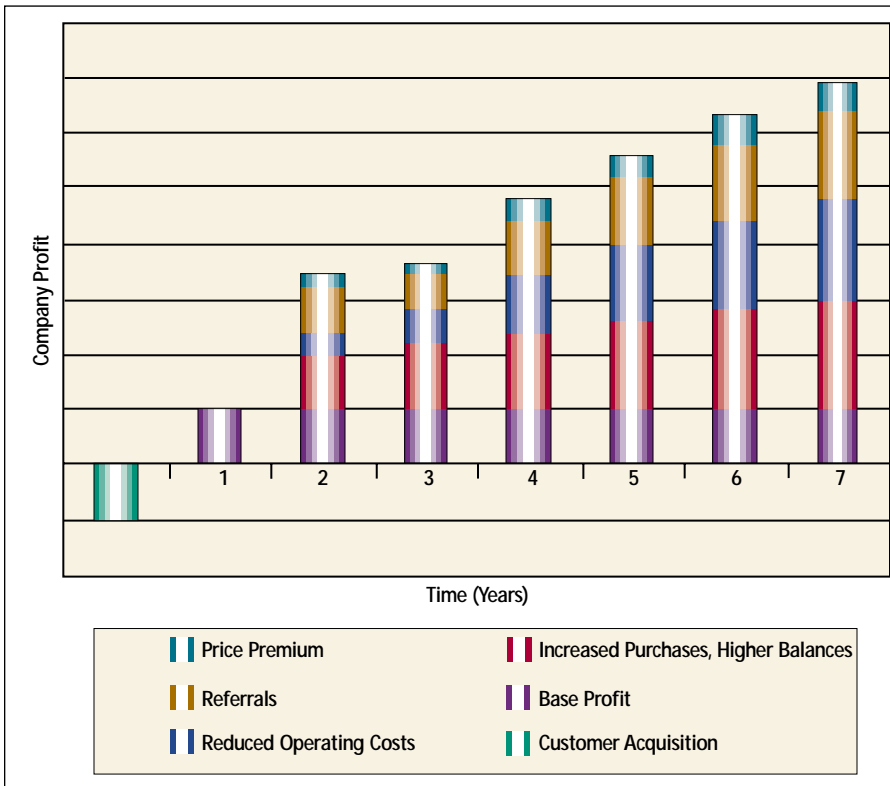
- Track performance against key purchasing decision criteria

- Track change in customer needs and adjust the tailored offering to anticipate those changes

The key is to deploy the right model for each target customer segment, based on a clear and differentiated value proposition that differentiates the offering from competitors' offerings and "delights" the customer by fulfilling their needs better than any other offering.

It is also crucial to have clearly different models for different target segments, so as not to deploy resources unnecessarily and so customers can appreciate the benefits they are receiving and appreciate the real value of the offering. ◇

Why Customers Are More Profitable Over Time



Source: MarketAbility

Fig. 7

Phil Allen is marketing excellence practitioner and value creator at MarketAbility, a business practice dedicated to marketing. During his 25-year career, he has developed his marketing expertise with hands-on experience in sales, market research and marketing in multinational corporations including Albright & Wilson Ltd. (Rhodia), Bayer AG, English China Clays, Hilti AG and The Dow Chemical Company. Mr. Allen is also a consultant and trainer at Cranfield Market Planning Center, Management Center Europe and the European University. He is the secretary-general and council member of the European Association for Business Research, Planning and Development in the Chemicals Industry (ECMRA).

He and his associate, Mike Crosswell, director of Customer Management Solutions Limited, are researching the current practice of customer relationship management in the chemical industry. The results of this research will be published in a comprehensive report by Informa in October 2000.

For further information about the upcoming report, contact Noémie de Andia, Informa Publishing Group Limited, London.

Tel: +44-20-7553-1421;

e-mail: noemie.deandia@informa.com