

CDRM: A CPG MANUFACTURER'S PERSPECTIVE

BY AL FAN

In response to the proposed Consumer Direct Relationship Management concept (in the previous article), this piece addresses the point of view of the mass-marketing, consumer packaged goods manufacturer. The author addresses both the benefits of the proposed model and the particular challenges inherent in implementation.

Consumer-Direct Relationship Management (CDRM) is an excellent example of technology enabling and enhancing traditional business processes that are used by manufacturers today to sell their products to consumers. The two business processes I am specifically referring to are: 1) the collection of consumer purchasing information and 2) the delivery of targeted consumer incentives. Let me discuss each separately.

Manufacturers have for many years struggled to collect both accurate and scalable consumer purchase information to understand not only what and how much people buy of a particular product, but also to try and understand the motivations behind that household's specific purchase behavior. Traditional vehicles for collecting this kind of information include diary panels, AC Nielsen's HomeScan panel which uses a wand device in the home and IRI's panel which uses a scannable card at point-of-sale. Each of these vehicles has advantages and disadvantages, but the one thing each of these approaches lacks is the ability to measure actual consumption of the product. They may tell the manufacturer when a box of Cheerios was purchased, who bought it, what store or channel it was purchased in and what other products were purchased with that box of Cheerios, but manufacturers don't really know when that box of Cheerios will be eaten or how long it will take to finish it once it's been opened. CDRM provides the linkage between purchase and consumption. Smart appliances that can communicate with each other through wireless platforms like Bluetooth will allow manufacturers to know when a product is actually pulled from the cupboard or out of the refrigerator to be consumed in a meal occasion.

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Manufacturers will know what appliances are used to prepare a certain meal and how often the consumer uses a microwave instead of the oven. They will know how many boxes of cereal are in the cupboard and how consumers rotate through those boxes. They will know what other items are consumed along with that box of cereal for breakfast and how much of that box of Cheerios is eaten as a late night snack. Understanding real-time consumption behavior provides the manufacturer with the information needed to improve their product offering, their communication of key benefits and the delivery of targeted incentives to encourage increased purchases of a specific product.

The recent accelerated growth of retailer frequent shopper programs has greatly enhanced a manufacturer's ability to deliver targeted consumer incentives based on an individual household's purchasing behavior.

Although direct mail continues to be the predominant delivery vehicle for most of these retailer programs,

Internet delivery of online coupons, point-of-sale devices and in-store kiosks are currently being evaluated. Catalina is currently the single largest targeted coupon delivery vehicle available today to most manufacturers, but limitations to its targeting ability and the delivery of coupons only redeemable on future trips have encouraged manufacturers to continue to evaluate alternative, more effective and more efficient targeting vehicles. CDRM offers many potential advantages over current targeting vehicles.

Potential advantages include the ability to deliver household-specific incentives prior to the purchase occasion and linked directly into the household's loyalty card. Another key advantage is CDRM's ability to deliver incentives real time. Knowing a household's consumption pattern for Yoplait yogurt through the CDRM network allows the manufacturer to deliver the incentive directly to the consumer at the most relevant time, either as the consumer finishes that last cup of yogurt or as they prepare their weekly shopping list. In addition, CDRM devices like mobile phones and PDA's will allow manufacturers to deliver rich content along with price incentives. The ability to send a yogurt recipe along with a Yoplait coupon will provide added value to the consumer and will enable manufacturers to reduce consumer dependency on pure price incentives.

There will also be several key challenges to overcome before CDRM becomes integrated into the marketer's toolbox. Consumer privacy will continue to be a paramount concern for everyone. Current regulations and policies are leaning in favor of consumers and could significantly limit the use or collection of household specific information through passive means. Scalability is still critical, especially for manufacturers of low margin products

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that rely on high volume to generate profitability.

The ability to target a few thousand households in any one market may generate a positive return for financial services and automobile companies that have no other way of reaching their prospective customers, but to traditional mass marketers of high

penetration and low involvement products high market coverage is required to generate the velocity needed to sustain profitability. The other challenge will be managing and presenting the tremendous amount of data being collected and transforming the data into actionable information for manufacturers.

Manufacturers will need to be able to evaluate the information from the SKU level up to the shopping basket level. Although data storage costs are less of an issue today, the processing costs and the human costs to sift through this information to find actionable insights are extremely high. The ability to identify something slightly more actionable than the fact that households who buy a lot of cereal also buy a lot of milk has remained elusive to date.

In summary, the concept of CDRM holds great promise for both the manufacturer and the consumer. As the fragmentation of media channels makes it more difficult for manufacturers to communicate with consumers and as the proliferation of new products create higher brand switching and lower loyalty for manufacturers, the time is ripe to embrace new technologies that will enable manufacturers to better understand and meet the needs of their consumers.

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