Leveraging Analytics to Drive Competitive Advantage

2012 will be a year of guarded growth for the Consumer Products (CP) industry. The economy, while continuing to show signs of a slow recovery, remains fragile and increasingly exposed to the risks associated with a global market. Consumers remain cautious in their spending, with purchase decisions dictated less by brand loyalty and more by cost and convenience. Technology continues to change how people shop, mandating that CP companies connect with shoppers through new media to drive advocacy.

Looking ahead, Clarkston contends that there is one underlying theme for companies to meet the many challenges presented by these economic and consumer driven trends, one that will allow them to answer critical business questions such as those outlined to the right. **Consumer Products companies will realize competitive advantage through their ability to embed analytics into their organization**.

Differentiation through Analytics

Consumer Products companies were the pioneers of marketing, able to drive growth and shape demand through brand strength, product innovation and consumer loyalty. Through the years, companies recognized that additional competitive advantage could be gained through operational efficiencies and manufacturing excellence. Companies leveraged leading practices and lean manufacturing principles from other industries such as automotive and high-tech, helping them realize substantial increases in productivity and profits. More recently, CP companies realized gains through technology, with enterprise-wide platforms, mobile technologies and advanced planning systems driving efficiencies that are now critical for any company to succeed in today's ultra-competitive environment.

Are these advancements enough? According to Catalina, the average Top 100 CP brands experienced a 46 percent decline in the customer segment defined as "high-loyals", described as customers who make at least 70 percent of their category purchases from a single brand name over the course of a year.[1] Almost half of their most loyal customers became less loyal over the past year. This being said, *can CP companies continue to rely on their marketing prowess to drive brand loyalty?* Consider the substantial investments CP companies have made in data acquisition, maintenance and storage over the past few years. Clearly, they have the technical capability to house and analyze large volumes of data, but few would argue that true analysis and subsequent value is being realized. In a recent survey conducted by Clarkston, CP executives rated their ability to generate insights from data investments as the largest gap between actual performance and desired capability.[2] Taking this into account, *can the technology investments that CP companies are making drive competitive advantage if they are not being fully leveraged?*

Challenges Faced

- *How to price products to meet demands of value driven shoppers?*
- *How to co-exist and thrive together with retail store brands?*
- *How to promote products to drive growth and build brand loyalty?*
- *How to engage consumers with innovative new products?*
- *How to manage a responsive supply chain to meet changing demand?*

Evolution of Competitive Differentiation

Clarkston Insights & Analytics Indicator

With companies struggling with how to differentiate in the future, the next frontier of competitive advantage is through analytics. Across the CP industry and throughout all functional silos–from sales to supply, from marketing to finance–most executives realize the need for analytics. However, with their strategy around analytics having evolved through the years, somewhat akin to adding additions to a house to accommodate a growing family, companies struggle with where to start and how to benchmark their capabilities relative to their peers.

Currently, a company's ability to measure success is limited by its focus on traditional, financial-based metrics: revenue growth, company profitability, earnings per share, etc. No proven KPIs exist that allow an organization to measure their success in analytics, and few benchmarks provide any measure of maturity. In the past, when organizations attempted to gauge their analytical prowess, they simply looked at their analytical tools and, perhaps, the number of analysts and statisticians employed. However, this fails to consider a more holistic measure, one that views organizational behaviors and processes equally important as resources and tools.

Taking this into account, Clarkston has developed the **Insights & Analytics Indicator** as a systematic means to measure a company's ability to compete on analytics. This indicator provides a more comprehensive view for the whole organization, assessing a company's Strategy, Processes, Organizational Behaviors and Technologies (SPOT).

Strategy

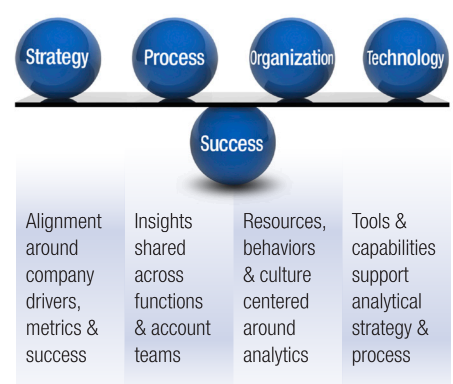
Zynga, one of the tech industry's hottest companies, has revolutionized the model of the videogame industry, offering their games FarmVille, FrontierVille and FishVille for free and driving profits through the sale of "virtual goods". This is all driven by their ability to analyze huge volumes of data when people play their online games, a differentiation that is core to their strategy. Zynga has been quoted as saying that they are an 'analytics company masquerading as a games company' and they consider data to be their "secret weapon". By making analytics a core part of their strategy, they have been able to disrupt the traditional videogames industry and realize overnight success.[3]

Similar to Zynga, the Insights & Analytics Indicator determines how analytics fits within a company's overall strategy, answering a few critical questions.

- Which capabilities are needed to drive success?
- Where do we need to focus our efforts and resources?
- Does everyone understand the value of analytics?
- How do we measure the success of our efforts?
- Are we aligned as an organization behind our strategic goals?

These questions drive the analytical strategy. First, organizations need to understand which capabilities their analytics need to support, whether it is better execution at retail, more effective collaboration with customers, or driving consumer insights. Next, organizations need to agree on what the analytics need to provide, whether it be faster analysis, more granular views, or greater context. Finally, organizations can determine the data needed to support this strategy and drive these capabilities.

> *"It is the human and organizational aspects of analytical competition that are truly differentiating."*
>
> **Thomas H. Davenport**
> Competing on Analytics



Equal consideration of all factors will drive **Success**

Process

Having an operating model that ensures the leveraging of insights and lessons learned throughout the organization is critical to success. However, according to recent industry research, over 50 percent of Consumer Products executives are dissatisfied with their current processes in place around analytics.[4] Companies should consider the examples being set by leading companies, such as Clorox, Land O' Lakes, Novartis Consumer Healthcare and others, who have instituted insights Centers of Excellence (COEs) to accelerate insights, learning and communication. These COEs allow for a more holistic view of analytics across the entire organization and greatly reduce the risk of redundancies in analysis.

While a COE creates a centralization that is critical to sharing insights and lessons learned across the organization, a sound process needs to account for the unique analytical needs of each line of business. The supply chain organization might have analytical needs vastly different than those within finance, while each retail account team might require analysis that is uniquely focused on serving their particular customer. As such, the following questions should be asked in gauging your processes in place around analytics:

- Are insights being shared across functional silos?
- Are insights being shared across retail account teams?
- What is the right mix of centralization vs. de-centralization of analytics and insights?
- What processes are in place to ensure that decisions are based on facts?
- Is there the appropriate prioritization for insights gathering and sharing?

Organization

Procter & Gamble, led by CEO Bob McDonald's mission to digitize the company's processes from end to end, has a stated goal to expedite their decision making. From the highest levels within the organization, they have elevated the importance of data and the reliance on analytics to drive decision making. They have developed a model, through their Business Sphere program, that gives executives predictions about P&G key metrics through a series of analytics models focused on what has happened, why it is happening, and necessary actions that should be taken. Through this, they have been able to arm all of their team leads with the data needed to make key decisions.[5]

In measuring your company's organizational commitment to analytics, you need to consider the following:

- Do your analytical resources have the capabilities to support your analytics needs?
- Does your structure support the development of analytical skills?
- Does your culture emphasize the importance of analytics in the decision making process?
- Does leadership communicate the importance of analytics?
- Do organizational behaviors indicate that the importance of analytics has been embraced?

When considering your organizational capacity to compete on analytics, consider a number of variables beyond the analytical resources currently in place. P&G is a great example of how, from the highest levels, analytics must be embedded in the culture, the value of analytics must be demonstrated, and a mindset of analytical thinking and decision making must prevail.

"To unlock the true value of analytics, insights need to be shared and made actionable across all functional departments."

Kara Romanow
Consumer Goods Technology

Potential Organizational Benefits

- *Shared insights across the organization*
- *Integrated analytics throughout the business*
- *Fact-based decision making culture*
- *Single version of the truth*
- *Strategic objectives aligned with necessary functional competencies*

Technology

Social media analytics have provided companies with an enormous data set, vastly greater than the traditional syndicated and POS data feeds to watch CP companies are accustomed. Kraft, as a means to better monitor and react to online conversations, is working with MotiveQuest, a social media monitoring firm focused on consultative analysis. While this analysis allows them to better understand consumer trends and changes in consumer tastes, as well as develop product ideas, it should be noted that Kraft is not tied to a single solution. They are continually looking for the next cutting edge solution and have adopted a test and learn approach that allows them to leverage insights from multiple technology vendors.[6]

While this is one leading edge example, the Insights & Analytics Indicator considers the various ways in which a company is leveraging technologies to drive analytics.

- Do you have a data repository that is aligned with your analytical strategy?
- Do you have the right tools to analyze all data, from syndicated to social?
- Are there redundancies in reports across functional areas?
- Do you have the right dashboards to support executive decision making?
- Are there standardized views of information, exception management and predictive analytics?

Most importantly, investments in technology need to be aligned with the overall strategy of the organization and provide the tools and capabilities that support the ability to compete on analytics. Very rarely will companies realize competitive advantage solely through technology; however, how this technology is deployed and utilized will drive success.

Looking Ahead

Consumer Products companies face an extremely challenging and competitive environment, driven by an unpredictable global economy and an increasingly fickle consumer. Developing a strategy around analytics presents a new way for organizations to combat these challenges, with the Insights & Analytics Indicator allowing a company to understand where competitive advantage can be gained. Once a company understands its current state, benchmarks itself against key competitors, and identifies opportunities for improvement, the real question becomes: **What's stopping your company from realizing competitive advantage through analytics?**

About the author

Steve Rosenstock leads Clarkston Consulting's Consumer Products practice and has been helping senior executives in the CP industry address their business challenges for the past 14 years. He is recognized as a cross-functional thought leader, delivering business results in the areas of trade promotion optimization, supply chain management, business intelligence, and business process design. For more information contact Steve at ***973-218-2649*** *or* ***srosenstock@clarkstonconsulting.com****.*

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Clarkston Consulting is a different kind of management and technology consulting firm. We deliver a unique experience for market leaders within the Consumer Products and Life Sciences industries. Considering professionalism, expertise, and value as prerequisites, we take service a step further through our unyielding commitment to the success of people as individuals, both our clients and our employees. By combining integrity, adaptability, and a whatever-it-takes attitude, we have achieved an extremely high rate of referral and repeat business and a 10-year average client satisfaction rate of 96%.