The View From The Glass House

How to compete in the transparent marketplace

By Ajit Kambil and Patrick Conroy
With Ryan Alvanos
Photography by David Clugston
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Lindsey Shindell is looking for the perfect business suit in a New York department store with her mother — who just poured herself a cup of tea in Cleveland. The store’s digital mirror streams video from the dressing room through a protected website to a laptop in the Shindell family kitchen. In real time, they’ll deliberate — *Pinstripes or charcoal? Are the sleeves too long?* — as if they were in the same room. Lindsey finally decides, and mom checks online to make sure the perfect suit isn’t cheaper somewhere else.
New information technologies let consumers, retailers and consumer packaged goods companies (CPGs) access and communicate varied, rich information in real time to transform key interactions and relationships. Transparency makes previously difficult-to-access information readily visible to all key stakeholders: companies, customers, unions, investors and the broader community. This creates opportunities for increased selling and top-line growth; competitive strategies based on micro-targeted, real-time marketing campaigns; collaborative shopping experiences; and shifts in bargaining power between retailers, CPGs and consumers. Company leaders and consumers alike know that transparency has turned the walls of corporate headquarters to glass.

Transparency challenges companies by making information about products and pricing, as well as corporate practices around labor, environment, healthcare and other issues, instantly available to potential customers. Empowered by YouTube and other new media, consumers have the power to reframe, even shatter, the reputations of products, services and companies. As transparency washes the windows of corporate headquarters, leaders of retail and consumer product companies will have to ask themselves:

• How will information technology increase transparency in the industry?
• How will transparency impact consumer behaviors, retailer strategies and producer strategies?
• How can we capture value and mitigate the challenges of transparency in terms of price, reputation and other drivers of purchase behaviors?
• How should we react to empowered stakeholders — from consumers to third parties like environmental lobbies — who can impact the reputation of the firm?

Competition in the glass house of transparency will require CPGs and retailers to focus on:

• Creating customer trust and avoiding lapses that destroy reputations
• Co-opting customers to co-create value with the company
• Increasing responsiveness to customers by improving their abilities to sense needs, interpret requirements, frame responses, act to deliver, and learn from outcomes
• Competing on design and brand
• Strategically and proactively using information to define demand

Effectively executing the above strategies will depend on retailers’ and
CPGs’ abilities to strategically ‘push’ and ‘pull’ key information to and from stakeholders.

TRANSPARENCY’S KEY DRIVERS

In recent years, the primary driver of transparency has been the widespread diffusion of new information technologies that allow accelerated and real-time access to information, rich communications, and analysis. Since the advent of the web, advances in information technologies allow consumers and businesses to increase real-time information access, insight generation and collaborative action that reshape how critical stakeholders interact and influence each other’s decisions about why and where they should buy something.

A secondary driver is regulatory mandates that require increased disclosure about products, services and even companies themselves. For example, country-of-origin labels on grocery products provide greater food safety through transparency about the source of key food products. On the financial side, disclosure required by Sarbanes-Oxley improved standards and made available more detailed control and risk information to investors. In the future, the transition to extensible business reporting language (XBRL) for corporate reporting will enable near real-time analysis to help find potential anomalies and risks.

Yet another driver relates to risk management. Growing concern among consumers around topics such as sourcing, product safety and identity theft suggests that companies need to be able to quickly respond to issues surrounding the far-flung links in their supply chains and the proliferation of their data-collection efforts. In the last decade, consumer businesses have made strategic investments in vertical integration, ancillary growth offerings and technologies, enabling them to acquire, consume, produce and share customer data. Companies need to better understand the risks associated with these endeavors and prioritize resources by focusing on high-risk business processes and data sets.

As technology improves and regulatory mandates for disclosure increase, executives in consumer product companies can expect stakeholders to begin redefining relationships in the marketplace. Transparency will create many moments of truth around key decisions. The purchase of products, the hiring of staff, the selection of job offers by prospective employees, and the actions undertaken by companies will be based on more complete sets of information.

EMPOWERING CUSTOMERS THROUGH TRANSPARENCY

Customers today make no bones about their empowerment. Information on price, convenience and reputation — the nuances and differentiations that retailers and CPGs relied on to remain profitable in crowded markets — is just a mouse-click away. Thanks to the onset of Web 2.0, customers are increasingly able to shape the market. This is transformational. New technologies not only inform customers’ decisions about purchases, they enable a participatory role in everything from design and development to the point of sale.

Increased access to information, especially pertaining to products and pricing, is significantly impacting retailers and CPGs. In Japan, the DoCoMo phone
reads in-store barcodes and then signs on to Amazon or Pricegrabber via Bluetooth technologies to compare product prices and offerings. Consumers, as a result, can then use real-time pricing and availability data to inform their purchasing decisions based on cost, risk and convenience.

In addition to insights pertaining to cost, such mobile devices place detailed product information — often surpassing information available to in-store clerks — at the fingertips of potential consumers. Customer-generated discussions of products and retailers influence reputations and the collective sentiment of the consumer. For example, customers who have a negative experience with a company or service provider can post their views on sites like www.angieslist.com warning other potential customers about a company’s shortcomings.

Especially when customer contact is limited, such negative interactions and reviews can significantly influence the reputations of retailers and consumer product companies. This can have a statistically significant influence on customers’ willingness to interact with a retailer or CPG. In short, transparency can adversely impact margins, market share and brand equity.

For customers, mere access to information may not necessarily be enough to inform their decisions about purchases; as a result, transparency also encompasses mediums that provide insights about the considerable amounts of information they have at their fingertips. Innovations that allow the interpretation of customer buying trends can give them insights about the products they are likely to buy or enjoy in the future. Netflix, a company with a business model that is based on soon-to-be-antiquated DVD technologies, is not, in fact, in the DVD business. They are using the unlikely mail-order DVD business to build brand equity among their users and create vast repositories of data about its individual customers’ preferences. The company uses a customer’s ratings to predict other movies he or she might like, with each rental and subsequent rating adding to its acumen. When movies stream straight to our homes via the Internet, Netflix may find it has a competitive advantage based on its ability to offer insights to its customers based on the data it has already collected.

Finally, Web 2.0 and an increasingly collaborative spirit among consumers result in its heightened ability to act collectively and influence retailers and CPGs. This collaborative influence is not limited by brand or retailer reputation. In fact, these technologies are shifting the power of price setting between retailers, CPGs and customers. In China, mob shopping (called tuangou) — where customers visit a website, enter a product they would like to buy, assemble a critical mass, and con-
verge on a single retailer demanding deep discounts based on en masse purchases — is shifting the power of price setting from retailers to consumers.3

TRANSPARENCY – THE CHALLENGES FOR RETAILERS AND CPGS

Heightened transparency creates new challenges for retailers and product companies. Price-comparison technologies are proliferating and creating new convenience and value for customers. The challenge for retailers and product companies who are not the lowest-cost providers is to frame different strategies for winning the customer.

Similarly, users are now defining perceptions of the product experience. It used to be that Madison Avenue and clever advertisers could formulate your brand. As users rant about negative experiences and create YouTube videos that feature or spoof products and advertisements, retailers and product company managers are challenged in real time to manage their brand across diverse electronic media. Do you know how users are framing dialogues about your offerings in cyberspace?

A prominent automobile manufacturer provided users with sound and video clips and invited them to create 30-second commercials. This led to the distribution of unfavorable tag lines like “Yesterday’s technology today” and “Global warming isn’t a pretty SUV ad – it’s a frightening reality.”4 Online customer-driven movements to address product issues are not new. As early as 1994, Intel was challenged by online users in news groups to address a flaw in the Pentium chip. Customers’ word-of-mouth communications are among the most powerful influencers of purchase decisions.

Transparent markets also demand a high degree of responsiveness. As consumers prowl the Internet seeking information and instant gratification, slow and poorly designed websites are quickly passed over in favor of more responsive ones. Retailers and product companies have to be able to meet customer needs in real time across multiple formats and channels that were barely envisioned a decade ago. Becoming responsive and selectively making profitable offers to demanding customers becomes a challenge across all media. Indeed, real-time online connections to customers create a new level of expectation for companies to offer real-time online help.

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WHAT ABOUT THIS ONE?

ICCONNICHOLSON, IN CONJUNCTION WITH NANETTE LEPORE, introduced an interactive mirror that allows customers to try on garments and stream video to a website where remote shopping cohorts can offer second opinions to the customer, creating rich, collaborative shopping experiences.2
Competing from the glass house demands new skills, technologies and strategies from retailers and product companies. To effectively compete, retailers and CPG companies will need to focus on six key areas:

1. Creating customer trust and preserving reputations
2. Involving customers to co-create trust and value
3. Competing on responsiveness
4. Competing on design
5. Competing on brand
6. Strategically and proactively using information to define demand

Indeed, the very technologies that are turning corporate headquarters into glass houses can, if recognized and used correctly, help companies improve execution in all of these areas.

Creating customer trust

Rock-throwing is a very real danger inside a glass house. Major retailers and CPGs will have to take the high road of exemplary behavior with customers and other key stakeholders in a transparent marketplace. When the goods and services that a company offers are easily duplicated by competitors, real differentiation and competitive advantage will only occur when a company improves its relationship and builds trust with its customer base. Trusted reputations and positive relationships are built through repeated high-integrity interactions with customers and the careful cultivation of a corporate image. To this end, retailers and CPGs will need to ensure that they have clear processes and internal controls to support high behavioral standards.

Not all transparency is bad. Retailers and CPG companies with exemplary supply chains should harness new information technologies to make their processes more transparent as a means of strategic differentiation. For example, food retailers resisting even basic country-of-origin labeling will likely have better results if they embrace an even higher standard that reassures customers about food quality and safety. For companies with repeated customer interactions, creating trust will be critical to prolonged profitability in otherwise crowded markets.

Involving customers to co-create trust and value

The Internet enables new ways to create referential trust. Amazon was one of the first to seize the inherent opportunities of co-creation by encouraging customers to create and post book reviews on their website. Customers can rate these reviews, allowing users to identify what was most useful to others. Amazon also makes it easy to filter reviews coming from trusted sources. This simple system of co-created reviews and references is indispensable to book buyers and allows Amazon to provide distinctive and differentiated value to its customers.
As customers publish on MySpace and other venues, they become referents for other customers. If companies permit them, customers are also empowered to “virtually touch” nearly all parts of the company value chain, from insights for product design to co-creating ad copy in the marketing and sales cycles.

Companies are harnessing the collaborative power of their customer bases to create word-of-mouth marketing and collect consumer input on their product offerings. Procter & Gamble launched Tremor, a word-of-mouth marketing network of unpaid consumers (agents) who share the company’s products with their friends and relatives. These efforts give P&G a more insightful picture of customer perceptions of their products and other trends.

**Competing on responsiveness**

The third platform for competing in the transparent world is responsiveness. This is the ability to truly sense the behaviors of customers and other stakeholders and respond to their needs in real time. To become more responsive, companies need to be able to sense needs and issues, interpret requirements, frame responses, act to deliver on the responses, and learn from the reactions of customers and others to improve future responses.

The first step toward becoming responsive is building the capacity to sense the needs that merit response. All too often, retailers and consumer packaged goods companies primarily rely on point-of-sale data to sense trends. In the future, they will have to consider expanding this capability beyond the checkout line, to encompass the full lifecycle of the customer relationship. The vast repositories of information about consumers are also allowing companies to replace mass marketing with plans that focus on each individual customer. Companies like Google have a window on consumer interests far in advance of a purchase as customers seek information on product categories. Some retailers already tap into this information by serving up ads related to the users’ search keywords. Many do not. Other retailers have the capacity to track the browsing behavior of customers in online stores. In the future, companies will be able to expand their observations and analyses of customer behavior in both the real and the virtual world. They will increasingly be able to examine consumers’ moods and feelings in a locale and how they translate into willingness to purchase. They will be able to observe and model individual behaviors in stores as video monitoring technologies mature, creating new challenges and competitive opportunities.

**Any suggestions?**

**Companies as diverse as technology, car and toy manufacturers** have set up areas on their websites that seek out suggestions from consumers and suppliers. BMW, for example, has received some 10,000 suggestions from its suppliers, of which about a third have been put into practice. Often, these co-creation efforts save the company time and money since the innovation is being driven by those with intimate knowledge of the product, which helps to improve acceptance and improves speed-to-market.

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It isn’t enough to merely sense consumer behaviors. The ability to respond effectively to stakeholder needs is predicated on the ability to correctly interpret information and convert it into insights. As companies collect and store vast amounts of customer data, the capacity for data mining becomes more salient to generating useful and actionable insights. For example, catalog company Lillian Vernon Corp. in Rye, New York, realized that it was only attracting female customers. Analyzing its web usage data, the company discovered that men — who might not flip through a paper catalog — were happy to shop at Lillian Vernon’s website. Using this insight, the company has increased the amount of male-oriented product placements on its website. The takeaway point from this illustration resides in the simple fact that retailers and CPGs should develop an ability to discover patterns — to sense consumer behavior and then turn it into actionable ideas.

Responsive companies need to be able to frame their actions in near real time. Consider 7-11 Japan. This very profitable retailer has a proprietary information system that tracks variables like the weather forecast. Based on previous experiences, these variables are used to change the mix of goods shipped to the stores and stocked on the shelves multiple times a day. The ability to frame and synchronize supply responses to almost real-time demand makes 7-11 a consistently highly profitable retailer in Japan.

Being responsive requires effectively acting on framed decisions and learning from the outcomes. Some firms learn and execute better than others. Even before Hurricane Katrina made landfall, Wal-Mart was using its systems to prepare for expected demands after a storm. They used foresight and advanced operations based on prior post-storm experiences to supply provisions for relief faster than the federal government. The franchise did not become heroic for its ability to see storms developing in the Gulf of Mexico before anyone else, but for its ability to sense customer needs and respond with fresh water, food and toiletries in an area where these commodities were at a premium.9

The technologies of transparency can also enable companies to customize offerings and experiences to customers and be more responsive at scale. Harrah’s, for example, uses these technologies extensively to customize company-customer interactions. Patrons having a bad day at the slot machines will receive text messages with time-sensitive buffet coupons to cultivate repeat customers. Similar technologies are used to monitor traffic in its casinos. Customers congregated in a single area will receive invitations and coupons to other parts of the casino, which promote even distribution of crowds.10
Third-party technology vendors and services also help companies become more responsive. As cell phones become more prevalent and capable, mobile coupon services will emerge, like those offered by Cellfire, that send discounts to customers on behalf of companies ranging from car rental companies to entertainment providers and restaurants. Other technology-based services like Lucky magazine’s “Live Buy It” place advertisements for Sephora and Target and allow readers to buy merchandise through PayPal Mobile’s Text2Buy service. Similarly, Web sites like NearbyNow allow shoppers to check prices and availability of products in local shopping centers online. Such technologies challenge retailers’ ability to maintain inventory and prices. At the same time, they benefit retailers because customers who decide which product to buy and which retailer to buy it from, ahead of visiting the store, are more likely to make a purchase when they enter the store. As transparency expands, new companies and tools will evolve to help sellers become more responsive to buyers.

**Competing on design**

The fourth platform for competition in a transparent world is differentiation through design. Retailers and CPGs trying to compete in transparent markets need to cultivate their abilities to develop emotionally resonant retail environments, product designs and interactions for their customers. Apple’s iPod is the leading MP3 player not because of superior technical features, but because of its compelling design. The Aeron chair, the Dirt Devil Kone, and Target’s contract with Michael Graves to design tea kettles speak volumes about the importance of emotionally resonant product design.

Another dimension of design is to offer compelling interactions and choices to consumers. In the transparent marketplace, companies have new options for differentiating transactions and channels to the customer. Do they give a direct fixed-price purchase option online, or use Internet auctions and other formats for product purchase? eBay, which emerged as an online auctioneer, recognized the fact that monolithic transaction designs no longer cut it, and added the “buy it now” feature that drives over 30 percent of its business. Companies will have to rethink their offerings beyond the product to the transaction.

**Competing on brand**

The wide proliferation of electronic publishing channels makes transparent markets noisy. While new channels become informative sources for customers, they can also generate information overload that taxes the consumer’s cognition. In such a noisy world, brand becomes more important in reducing the customer’s search costs. Investing in brand and consistently delivering the brand promise can help differentiate products and services and help consumers cut through the clutter in product consideration.

**Strategic push-pull**

At the core of all the above strategies is information about companies’ products and services, management, and actions. Companies will need to master “pull” and
“push” information strategies to execute in the transparent marketplace. They will have to invest in systems that “pull” information about customers and other stakeholders on a wide variety of topics. Today, the Internet provides managers with the ability to gather strategic information proactively. For example, a chocolate company can proactively identify promising research showing that dark chocolate has favorable medicinal properties. If the results are promising, the company can use them to proactively make a market in nutraceutical chocolates. Today’s transparency dramatically reduces the costs of pulling information that can strategically change the product market mix. The key is to identify that information ahead of time.

Beyond pulling information, companies will have to develop more coherent “push” strategies that preserve their reputations in readily available company information and make their brands stand out in a noisy world through enhanced customer interactions.

Retailers and CPG companies will have to learn how to deliver offerings to customers in multiple venues and across multiple channels, like the location-aware coupon or multimedia product information, to motivate an impulse purchase. At a more strategic level, there is opportunity for retailers and CPG companies to alter the level of customer “involvement” with products and services. Involvement is an emotional state where a product category becomes interesting and exciting. It is a motivational force that leads consumers to a specific choice and action. While some people may find handbags more exciting than others, allowing previously uninvolved Web-surfers to vote on three different handbag choices to help a shopping-damsel-in-distress on Kaboodle.com changes this level of involvement.

Thus, the strategic push of information through social marketing and other sites can change the level of product/service involvement of different buyers. Executing such strategic information “push” strategies will require a new integration between marketing, communications, public relations and the information systems functions of the firm or greater collaboration with third-party vendors.

Companies can choose from a number of alternative strategies for competing in a transparent world. The challenge for managers will be to choose the right level and mix of strategies for responding to transparency. Companies offering high-value, high-margin products that deeply involve customers are more likely to implement...

**I FEEL...**

**JONATHAN HARRIS AND SEPANDAR KAMVAR’S WE FEEL FINE PROJECT** harvests human sentiment from cyberspace by combing newly posted blog entries for the phrases “I feel” and “I am feeling.” The resulting data, which grows by 15-20,000 postings per day, can be subdivided by demographic and location, offering responses to questions like, “Does rainy weather affect how we feel? What are the most representative feelings of female New Yorkers in their 20s? What do people feel right now in Baghdad?” Smart companies can use this data to see how collective feelings and moods correlate to sales, potentially creating new predictive models of customer demand.
a broader variety of strategies. Yet, as the costs of information “push” strategies go down, companies with low-value products will also have opportunities to change the level of customer involvement, making brand and other product attributes more relevant to customers.

PROSPERITY IN THE GLASS HOUSE

Increasing transparency creates new opportunities and risks for retailers and product companies. Consumers and other stakeholders are increasingly empowered by information, the ability to generate insight from information, and the ability to undertake collective action in support of or against companies. However, all is not lost. By focusing on creating customer trust through exemplary behavior, co-creating value with customers, increasing responsiveness, competing on design and brand, and the proactive use of information, companies will be better positioned to take advantage of the new opportunities for differentiation and competition in the glass house.

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