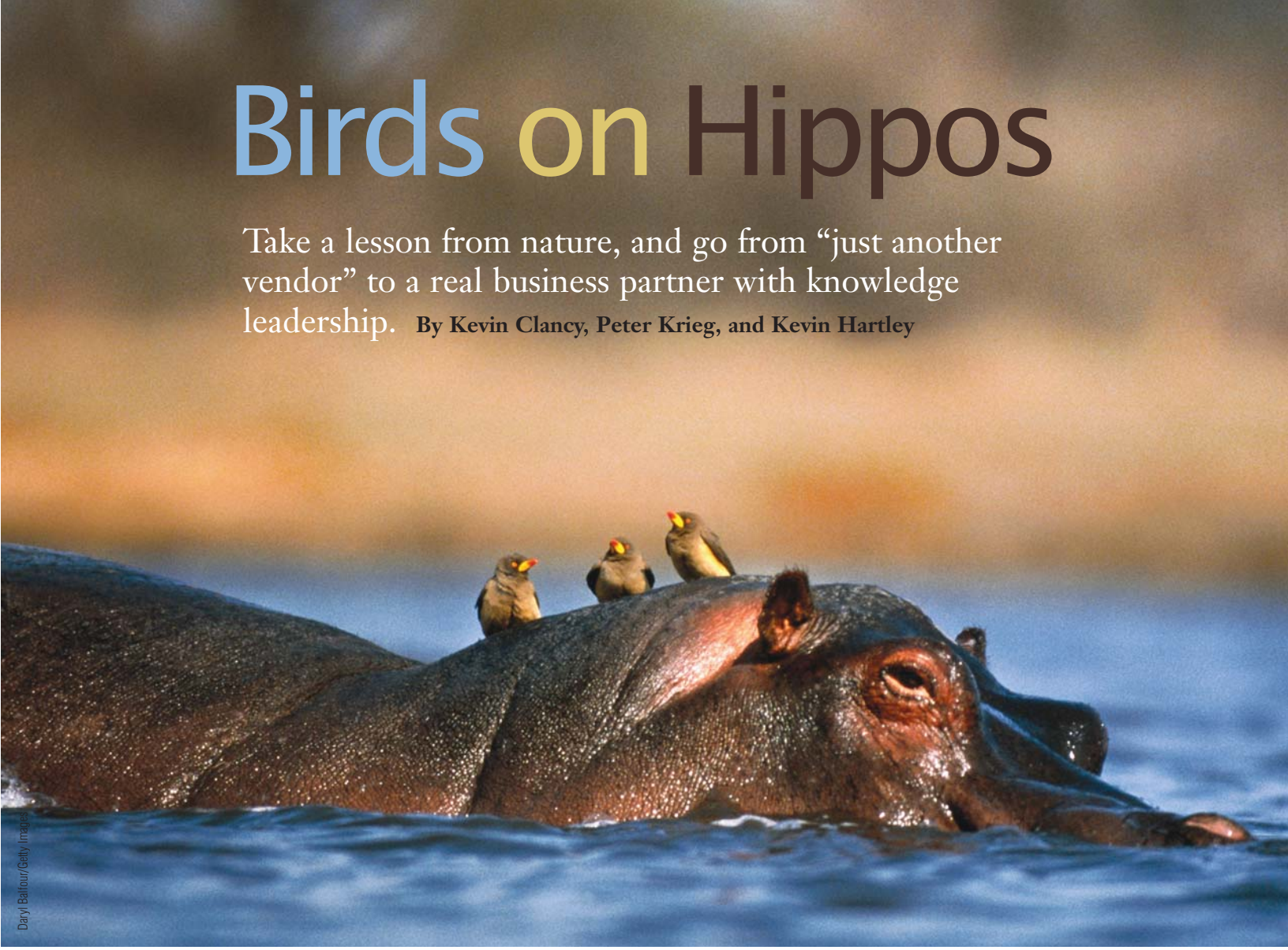
Birds on Hippos

Take a lesson from nature, and go from "just another vendor" to a real business partner with knowledge leadership. **By Kevin Clancy, Peter Krieg, and Kevin Hartley**



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All of us can probably remember learning about symbiotic relationships in junior-high science class. It's the common occurrence in nature of two organisms—often of different species—living together in a relationship that has varying degrees of benefit for each.

In the happiest of situations, both parties gain an advantage by sticking together. For example: Birds ride on the backs of hippopotami, eating insects. The birds are delighted by the plentiful supply of food, and the hippos are pleased to be bug free with little effort on their parts. The hippos would miss the birds dearly if they went away, because the birds are such essential parts of a pleasant life at the watering hole.

At the opposite end of the spectrum, one party thrives while the other suffers: tapeworms or alternate parasites in the stomachs of unsuspecting animal carriers, for instance. And there's palpable relief when the imposing party goes away.

In the middle, there's the case in which one party benefits but the other neither gains nor loses. For example: Remora fish attach themselves to sharks, swim around with them, and eat their leftovers—but the sharks remain completely indifferent. When the fish move on, the sharks surely don't lose any sleep over it.

EXECUTIVE briefing Next-generation B2B marketers differentiate their products, services, and brands through knowledge leadership: collecting valuable intelligence and delivering it to their customers. This intelligence addresses the critical, big-picture problems that stand between their customers and real growth. To successfully develop and launch a knowledge leadership-based strategy, a thoughtful step-by-step approach is required. Case examples of companies using this strategy offer insights into its potential for simultaneously expanding customer relationships and product sales.

B2B firms would certainly like their customers to view their relationships as more akin to birds on the backs of hippos. But the more probable—and quite unfortunate—reality is that most customers would state they're actually more similar to remora fish and sharks. It's not entirely clear to customers that the relationships offer them any significant advantage that a competitor wouldn't also be able to provide. And it's not abundantly obvious how—or even if—the B2B firms are crucial to their success. Like the sharks: If customers' current suppliers went away, most of them wouldn't bat an eye.

How has this happened? "Companies everywhere are struggling to differentiate their offerings," writes consultant and author Jeff Thull in *The Prime Solution* (Kaplan Business, 2004). In B2B, delivering a widget that is distinctly different from and better than a competitor's has become virtually impossible in too many markets. There's an innovation ceiling in many categories; only so much can be done to a commodity product (e.g., industrial gas, engine lubricant, wine, personal computers) that (1) would be meaningful to a customer and (2) a competitor wouldn't be able to replicate in short order. The result is a lot of products at competitive parity, with little ability on the firm's part to do anything about it—certainly not in the short or medium term.

Adding to the problem is that B2B marketers tend to spend their budgets on "about us" efforts: training the sales force, creating brochures, building trade-show booths, and/or developing Web sites and print ads to tell customers about the companies' brands and their implied benefits. "The growth of commoditization, or product parity, is pushing B2B marketers toward more image-building brand marketing," according to a June 2005 eMarketer report. "That's particularly true for companies whose products or services are similar to the competition's." However, in our experience, the majority of these efforts are as likely to (1) explain how one company's products are different or (2) offer a compelling reason-to-buy message as pigs are to fly. Marketing communications don't do B2B firms any favors in helping a customer distinguish products.

So how does a B2B marketer grow share, sell at premium prices, and convince customers that they're essential parts of the business' existence?

Exhibit 1
Product-centric approach

A typical approach to identifying differentiation opportunities starts by asking customers about the company's product.

Services and Solutions

In a 1989 *Harvard Business Review* article ("The Service Factory"), Richard Chase and David Garvin warn: "Lower costs, higher quality, and greater product variety are like table stakes in poker—the price that companies pay to enter the game. Most products can be quickly and easily imitated. … Who wins and who loses will be determined by how companies play, not simply by the product or process technologies that qualify them to compete."

As more industries showed signs of product-feature burnout, Chase, Garvin, and countless others recommended that B2B marketers instead consider bundling products and product-related services. This would improve customer satisfaction, expand customer relationships, and thereby preserve and perhaps grow market share. "Most companies produce related products and services," write Gary Eppen, Ward Hanson, and R. Kipp Martin in a 1991 *MIT Sloan Management Review* article ("Bundling—New Products, New Markets, Low Risk"). "Indeed, considerable effort is typically devoted to make sure that individual items in a product line work well together. Bundling can reinforce this and encourage customers

to buy the proper combinations of services and products. This can enhance customer satisfaction and prevent disappointment with poorly coordinated services."

The concept of innovating (and consequently differentiating) products and generating growth through related services caught on like wildfire. As time passed, everyone and their mothers were promoting service offerings along with their products:

- McKinsey Consulting estimates that product-related—or what it refers to as "embedded"—services account for (1) $500 billion or 22% of overall durable-goods sector sales, and (2) an increasingly large share of individual-product company revenues.
- Cardinal Health's supply chain services business, which includes pharmaceutical/medical distribution and product launch assistance, comprises about 60% of the company revenues.
- At data storage giant EMC, services (e.g., consulting, on-site support, customer education) contributed 19% of total revenues in 2005—about the same as software sales. Interestingly, in 2005, year-over-year sales of services actually increased more than sales of the firm's famous data storage systems.

As competitive pressures increasingly commoditize B2B categories, services will become the primary differentiator in the decade ahead.

But starting about 10 years ago, as product-service bundles were becoming more de rigueur, companies aiming to stay ahead of the crowd started to consider what else they could do with these combinations. What would be more difficult for competitors to replicate, and might buck the trend toward commoditization? Anyone can offer consulting services related to the optimal usage of a product, for instance. So what else could a company bring to the table that might compel not just a purchase, but also a purchase at a higher price?

Enter the idea of "solutions": a suite of sometimes disparate products and services, formed to improve a particular area of a customer's business. Consider these examples:

- UPS, the global shipping company, now offers "supply chain solutions." According to its Web site, this is "a streamlined organization that provides logistics, global freight, financial services, mail services, and consulting to enhance customers' business performance and improve their global supply chains."
- IBM combines "hardware, software, business consulting, and IT [information technology] services into complete solutions to meet your goals," its Web site states.

Our experience is that many B2B companies have improved their competitive positions and profitability by offering solutions.

Certainly, there are plenty of stories about companies successfully transforming themselves from product manufacturers to solutions providers (IBM is the poster child). Yet according to McKinsey, three out of four companies see little gain when making this move. As with any major change, there is a host of issues that can impede performance—particularly that a services or solutions differentiation strategy isn't universally applicable. For a supplier of a manufacturing component, services that revolve around a company's expertise in increasing the component's performance comprise a clear and conceivable area of opportunity. Meanwhile, the unique and proprietary services that a wine producer could offer its retailers or a commercial lender could offer its borrowers (services the recipients might perceive as honest-to-goodness added value, which they would seek out and potentially pay more for) are much less expedient.

Also consider that just as there's an innovation ceiling on many product features, so too is there a limit to the feasibility and profitability of (1) supplying yet another related service or (2) adding another element and level of complexity to a solution offering. In addition, although specific components of a solution might be difficult for a competitor to replicate by itself (e.g., financing services), there's little to prevent a competitor from partnering with an outside supplier to build a comparable offering. As the services and solutions offered by players in a category grow more similar, price inevitably becomes the crux of competition. So although it might take a bit more legwork, embedded services and solutions—in and of themselves—aren't impossible to replicate or impervious to commoditization.

But do not lose faith, dear B2B folks. We're here to tell you about a new strategic option for those stuck in product parity, and perhaps even service and solution purgatory—one that's truly breaking ground in B2B marketing.

New Option on the Block

To develop product-service packages and solutions, companies might expand their definitions of the industries in which they operate. (Recall the late Ted Levitt's saying that the railroads thought they were "in the railroad business instead of the transportation business.") Nevertheless, their definitions are anchored by their product offerings. So whether a company provides embedded services, solutions, or (as is often the case) both, it doesn't change that these remain inextricably linked to the company's products.

Yet what if a company started not with its products as the point of reference, but with its customers and their needs, wants, and motivations—again, not as they relate to the company's products or services, but as the products and services relate to the customers' businesses in general? There is an important distinction between the typical product-centric approach to opportunity exploration and the alternative customer-centric approach. Instead of the company getting information about what changes, upgrades, updates, services needs, and so on it could use to configure its product and service offerings (or the same information that most of its competitors have, which might not help break the competitive parity cycle), it gains important insights into real business problems and challenges that could become verifiable strategic assets.

Exhibit 2

Customer-centric approach

An alternative approach to identifying differentiation opportunities starts by asking customers about their businesses.

And what if a company then wrapped its commodity product—not with a package of services, but with knowledge that would be wholly inaccessible to customers without the company? (It would be a collection of experiences and learned lessons aimed at addressing a customer's big-picture problems and pains, which might be only tangentially related to the company's product.) Marketing efforts would become focused on delivering information—not about the product, service package, or solutions, but about what is truly useful to the customer's business.

This is the strategy of knowledge leadership: growing your business through the creation and dissemination of extraordinarily innovative intellectual capital that will help a customer's business thrive.

Critical Steps

Ask companies whether they are customer-centric and 97% of them will say: "Absolutely! The customer is the center of our business solar system." In practice, however, it's a rare case. "Listen to them talk, and you hear customer, customer, customer," lament Roland Rust, Valarie Zeithaml, and Katherine Lemon in a 2004 *Harvard Business Review* article

("Customer-Centered Brand Management"). "But watch them act and you'll see the truth." Products, services, and brands are the focus, not the customer. Lip service must become real service for knowledge leadership to work.

There are three critical steps to developing and executing a successful knowledge leadership strategy.

Frame the question. Forget about the industry that you are in, what you think you understand about your customers, and what you think you know about your products, services, and brands. Think about business issues that your customers might have, which go well-beyond your current line of business. For instance: If you were UPS, what could you do outside of easing supply chain management? What could you do to improve (1) the image of your customers in the eyes of their customers and (2) the satisfaction level of your customers' customers? In other words, what could you do to help your customers' businesses grow and thrive overall—not just in a small and maybe lower priority (or worse, all-but-forgotten) operational area?

Consider General Electric (GE) Commercial Finance, one of the world's largest nonbank lenders. Only a small percentage of the $95 billion that it lends each year is for financing GE-related deals; the rest is given out to fund a variety of commercial ventures, from real estate to infrastructure. It's a highly competitive industry—one in which the terms of the deal (e.g., the interest rate, the payment schedule) are the primary points of differentiation, but typically vary little from lender to lender. Rather than stick to the confines of the commercial lending business in its search for ways to distinguish itself from the rest of the pack, GE Commercial seized on GE's vaunted expertise in Six Sigma and its wealth of management development competencies. Through a program called "At the Customer, for the Customer," GE Commercial offers customers millions of dollars of free advice about how to better operate, manage, and grow their businesses.

Conduct careful research among your customers and theirs. Knowledge leadership requires asking big questions and getting big answers, but you won't find such answers floating in the halls of your sales or research-and-development departments. You have to go out and talk to current and prospective customers, to find out about their problems and motivations. Yet just as your sales department, internal marketing staff, or account managers make assumptions about what's keeping customers up at night, so too do your customers make assumptions about their customers and what has them pacing the floor. The essence of knowledge leadership is demonstrating that your company is armed with the most comprehensive information to make your customers more

robust competitors. This requires not only challenging your assumptions about your customers' businesses, but also proving or disproving their assumptions about their customers.

Take Deluxe Financial Services, the largest check printer in the world. When it got its financial institution customers talking about the significant challenges in their businesses, those customers started discussing their struggles with customer relationship management (CRM): "We just don't know how to create the kind of customer experiences that foster loyalty and expand relationships." Aha! Now here was a big, hairy problem with which customers were begging for help. Meanwhile, Deluxe was collecting vital descriptive information (e.g., demographics, purchase patterns, brand preferences, attitudes, interests) about end users of checks. And it uncovered a huge disconnect between what consumers said they were looking for and what financial institutions were delivering, when it came to checks and retail experiences. At the end of this process, Deluxe had identified a problem so pressing to customers that solving it would propel the check printer far up the value chain. It had begun to amass the underpinnings of new intellectual capital.

Deliver the intellectual capital through captivating and meaningful experiences. There's been much talk since B. Joseph Pine II and James Gilmore wrote *The Experience Economy* (Harvard Business School Press, 1999), about how to translate experiences à la Starbucks in the B2B world. Again, for a knowledge leadership strategy to work, the intellectual capital must be transmitted through exceptional experiences that surround customers with information, learned lessons, and brand messages. As a result, the early practitioners of knowledge leadership have moved light-years beyond building trade-show booths and designing interactive sales presentations, the standard B2B experiences. Now they're generating the kind of marketing that would make Starbucks CEO Howard Schultz sit up and take notice.

What makes the difference between creating experiences that customers will not only remember but also talk about (to anyone who will listen) and run-of-the-mill B2B marketing? It's considering how you can deploy marketing dollars that will directly benefit your customers. Suppose customers tell you, as they did in Deluxe's case, that they need serious help with CRM. Instead of producing a four-color brochure with details about your products, contemplate hosting a series of seminars. Invite the leading thinkers on CRM to give talks, offer interactive Web seminars, coordinate collaborative work sessions to tackle the issue, and disseminate comprehensive information. We're talking about offering customers access to leaders and data that most of them don't have the budgets to support.

In Action

Let's look at the case of Constellation Wines U.S.—part of Constellation Wines, the largest wine business in the world. Ostensibly, it is a consumer company. But equally critical to growth is the B2B side of business: its on-premise customers (bars and restaurants) and off-premise customers (liquor stores and grocery stores).

Like every other major and minor player in the category, Constellation wanted to capitalize on rapidly increasing consumer interest in wine, and grow its market share. To do this, it could go directly to consumers with advertising, promotions, and so on—but so could competitors. The other major industry players would make equivalently strong sales pitches to on- and off-premise customers, to try to move product, secure shelf space, and so forth. So what, Constellation's people wondered, can we offer our B2B customers that will give us a more competitive advantage?

Working with Copernicus Marketing Consulting, Constellation launched one of the largest consumer research projects in the wine industry. It focused on premium wine consumers, talking to more than 3,500 of them. It collected data on retail purchase occasions representing more than 7,400 bottles of wine, and on-premise drinking occasions representing more than 3,400 bottles or glasses of wine.

The company dubbed the study Project Genome. In a 2005 press release, Constellation Wines U.S. president and CEO José Fernandez explains: "Just as the Human Genome Project was about understanding the DNA of the human body, we named our research study Project Genome because we wanted to elevate our understanding of premium wine consumers. … Everybody wins with this sort of research. Our retail and on-premise partners will now have even better insights into their customers and that can only lead to increased sales and more satisfied consumers."

Working with a major retailer, Constellation described the consumer data it had collected, and asked for feedback about what would be useful to on- and off-premise establishments. The account told Constellation it needed to go beyond sharing information that's nice to know—to sharing information that's actionable. Now the company had its marching orders.

In a kickoff press conference, major trade events, and media interviews, the company shared the richly descriptive profiles of the six market segments Copernicus had identified (see Exhibit 3). It also shared how it planned to use the information from Project Genome to help retailers and restaurateurs grow their businesses. It warned that if a retail or restaurant establishment wasn't addressing the needs of each consumer segment, then it wasn't maximizing its growth potential. Thanks to Constellation, its B2B customers would be more able to improve sales/profits and their standings in the eyes of their consumer customers. At a U.S. press conference, Constellation told its B2B customers: "By better understanding the premium wine consumer's wants and needs, we can assist our partners [the B2B customer] to achieve increased growth through the right product balance, the right promotional calendar, and the right displays and shelving."

To make the information relevant to each location, the company identified the six segments within Spectra's vast database of ZIP codes. For any retail or restaurant location, Constellation was able to offer a customized profile of the relative mix of customer types that frequent it. What's more, the company classified all premium brands—not just its

Exhibit 3

The six key premium wine consumer segments

ENTHUSIAST: 12%

"So much variety to try. I like to look at labels but I also like to look at Wine Spectator. *I really like to entertain, tasting wine with friends. It's the best experience."*

Key differentiating need
Enthusiasts are passionate about the entire wine experience – from researching what to buy to sharing it with friends and family.

IMAGE SEEKER: 20%

"I'm not sure about wine, but know a bit. When I'm not sure what I want, I typically go for the one that's more expensive."

Key differentiating need
Image Seekers need to feel sophisticated and fun, adventurous and trendy.

SAVVY SHOPPER: 15%

"I love to shop for wine, to see what's on sale or in a bargain bin. I usually have two to four bottles of wine on hand and when I get down to two, I'll go buy more."

Key differentiating need
Savvy Shoppers are looking for a great wine at a great value.

TRADITIONALIST: 16%

"I was raised on traditional values. When I'm shopping for wine, I end up buying the tried and true because I know I enjoy it and can count on it."

Key differentiating need
Traditionalists need to feel that their wine is made by a well-known winery that's been around for a long time.

SATISFIED SIPPER: 14%

"I don't care where the wines come from, and I don't know why anybody would. I always buy the same brand and I'm happy with that. When I go to a restaurant, I always order the house white zinfandel."

Key differentiating need
Satisfied Sippers want a sensible choice they can feel comfortable serving to family and friends.

OVERWHELMED: 23%

"There are so many wines on the shelves; it's so confusing. First I try to read the labels, then I call someone who works there to help."

Key differentiating need
Overwhelmed want good shelf description and/or recommendation by retail and wait staff.

own, but also its competitors'—by segment, so it could evaluate an account's product assortment. So for a restaurant, Constellation would be able to tell the account that it had a much higher number of traditionalists than image seekers, but that its wine list was heavily skewed toward image seekers: too few choices for the former and too many for the latter.

For retailers, Constellation was also able to analyze the promotions, displays, and featured products in terms of the consumer segments, to determine whether the store was adequately addressing the needs of customers in a particular trading area. For example: If Constellation discovered that a liquor store had a much higher number of satisfied sippers in its trading area compared with the other groups, yet its planned promotions had nothing to appeal to them, then the store would know where it needed to make an adjustment.

Birds-Eye View

Your B2B firm will always be considered a "vendor" or "supplier"—yet another remora fish in the market—unless you can deliver something of such absolute and complete value as a solution to a pressing, mission-critical customer problem. Only then do you become a true business partner to your customers: the bird on the hippo.

Management guru Peter Drucker once implored, "Innovation … requires something that is most difficult for existing companies to do: to abandon rather than defend yesterday." Although offering embedded services and/or solutions as a way to differentiate B2B products has worked for many firms, it is the strategy of yesterday. It's not new, not often exciting, and not guaranteed to be compelling to current and prospective customers. Conversely, knowledge leadership is the B2B marketing strategy of tomorrow; it uplifts the business prospects of a firm and its customers alike. ■

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