L.E.K.

EXECUTIVE INSIGHTS

VOLUME XI, ISSUE 25

Whose Customers *Are* They?

Things used to be simpler for product companies. You manufactured products in your own factories. You had customers who wanted those products. You either had your own captive distribution system, or – more likely – you had a network of distributors who made the vital link between you and your end customers.

Then came globalization. Given the labor differentials and the decreasing costs of transportation, offshoring your manufacturing capabilities first became tempting, from a competitive standpoint. Then it became absolutely essential. Either you found low-labor cost manufacturing suppliers for your products, or your company would find itself uncompetitive against others in the industry.

This dynamic has been much discussed over the past two decades or so. Less frequently discussed, though, has been the changing role of the distributor in the midst of this transition. Are your distributors still committed to you, or are they tempted to bypass your organization and source products directly from suppliers in China? Are your customers more loyal to you, or to the distributors from whom they procure your products?

I began pondering these questions recently when my firm did some work with a healthcare company supplying medical products for the hospital setting. This company was a manufacturer for the better part of a century. It still called itself that, and still thought of itself that way. In fact, however, the majority of its production had long since been outsourced to offshore factories, mostly in China. The time had come for the company to renegotiate its contracts with one of its largest distributors which had enjoyed exclusive rights in a number of countries, and something *interesting* was happening. Even in the middle of the worst recession in decades, this distributor was acting more than a little cocky. Our manufacturing client was hoping for more of the pie this time around. The distributor made it clear that it wanted to slice the pie differently too—to its own advantage. The discussions were amicable, there were certainly no explicit threats landing on the table. But the distributor was showing a new kind of feistiness, and it wasn't hard to figure out where that new self-confidence was coming from. Hadn't that firm attended multiple trade fairs in China in recent years? Wasn't it likely that a Chinese manufacturer had proposed to do business directly with the distributor, and cut out the middleman?

Now our client faced the key question posed above: *Whose customers are they?* If worse came to worst and the distributor decided to compete with its former supplier, what steps could the company take to defend its position?

Of course, many companies have wrestled with this challenge in recent years across all types of industries. For a company that really stands out in meeting this challenge, I'll turn to the area of consumer products and use the example of NIKE. This astonishingly potent footwear brand, famous for its "swoosh" logo and its brilliant marketing campaigns, began as a distribu-

Whose Customers Are They? was written by **Stuart Jackson**, Vice President of L.E.K. Consulting and author of *Where Value Hides: A New Way to Uncover Profitable Growth for Your Business* (Wiley 2007).

tor for a Japanese shoe manufacturer. Phil Knight – a competent middle-distance runner at the University of Oregon who later earned his MBA from Stanford – went into the running-shoe distribution business with his former Oregon track coach, Bill Bowerman. Then, using Bowerman's own designs for an improved running shoe, Knight dumped his Japanese supplier, contracted with some Japanese manufacturers of his own, and began competing directly in the athletic footwear market.

It's worth noting that NIKE was a "virtual company" from Day One: It manufactured almost nothing itself, and sold most of its product through retailers such as Footlocker. But its combination of innovative designs, endorsements by legendary athletes (notably Michael Jordan, Tiger Woods, and Lance Armstrong), and ubiquitous ad campaigns ("Just do it") have kept NIKE in the front ranks of athletic-shoe companies. Equally important, Knight and his colleagues managed the manufacturer/distributor relationship, and its inherent challenges, deftly – not surprising, since they had lived on both sides of that fence!

How does NIKE reinforce its relationship with customers on the other side of the fence, and make it hard for its distributors and retailers to steal those customers?

One of NIKE's techniques is to partner with other companies to build unique capabilities into its products. For example: NIKE and Apple teamed up to create the "NIKE+iPod Sport Kit" – launched in mid 2006 – whereby information about time, distance, calories burned, and pace during your morning jog is captured through an in-shoe sensor, wirelessly transmitted to your iPod, and displayed on its screen. You can also get audio encouragement through your headphones, if you choose. Apple created a NIKE Sport Music section in its iTunes online store; if you get into trouble on Heartbreak Hill, you can poke a power-boost button on your iPod, and your favorite power-running song will come flooding into your ears.

Does this high-tech/low-tech marriage help people run better, or more often, or more happily? Probably. Does it give pause to potential upstart competitors, who are unlikely to strike up their own deal with the likes of an Apple? For sure.

Then there's the NIKEiD offering, whereby you – as a consumer – are able to design your own version of a NIKE shoe, and share that design with other online shoe buffs. How does it work? You log on to the NIKEiD web site, click on a shoe, and start designing. Select a material, and choose your favorite color. Six parts of the shoe, from the soles to the laces, are open to manipulation by you. (For inspiration, you can view a library of designs by other NIKE customers.) Then you pick your size, add it to your electronic cart, and place your order. The product is manufactured to your specs and shipped directly to you.

I like to imagine the mental state of NIKE's supply-chain director when this idea first hit the table: seemingly, the intersection of mass customization and insanity! But it worked. Introduced in 1999, the service had attracted some three million unique visitors by 2007. Again, the question we need to ask in this context is, *whose customers are they?* With techniques like those, NIKE answers the question decisively: *They are our customers!*

What are the fundamentals of "owning" your customers, in an era when other entities in your own supply chain are eager to steal them from you? I can point to six:

- Acknowledge the burning platform. If you're a traditional manufacturer using distributors for your products, and if your products are not highly specialized but capable of being sourced through China or other low-labor cost countries, you risk becoming extinct if you don't change your business model. It is not enough just to start sourcing product from China; you also need to rethink your whole value proposition and relationship with end customers.

- Reinforce the brand. Yes, this one's almost too obvious to list, but if someone believes that your running shoe has something special going for it, that's a huge barrier to entry for your would-be competitors.

- Find new ways to link to your customers. For example, use the web in creative ways. A tiny little Denver-based company, Udi's Gluten Free Foods, has built a thriving online community on Facebook, with some 75,000 fans. (By way of reference, that's bigger than the University of North Carolina's Facebook community, which is the biggest college-focused Facebook group in the country.) How can you create two-way communications with your customers?

- Look for mass-customization opportunities. I've already cited the NIKE example. You can design your own Mini Cooper, as well. Pick your basic model, and start making choices. (The Mini web site claims that there are 10 million possible combinations.) Do you want a checkerboard dash board – reminiscent of the checkered flag at the speedway – for $242? No problem. How about a Harman/Kardon sound system, for an extra $750? Again, no problem. When you're finished, total up your bill, and click on the "send to the dealer" button.

- Enter into creative partnerships. Nike's market cap is something over $40 billion, and it's one of the most creative marketing companies around. Did it absolutely *need* to team up with Apple, whose penchant for secrecy can make it a difficult partner? No; but the partnership has proven enormously valuable to both companies.

- Be serious about services. Many manufacturers venture into the service arena with a combination of fear and disdain. If you add new or improved services to hang onto your customers, make it a *real* business. Hire a business leader who has services experience, and who thinks about customer solutions. Then give him or her the P&L responsibility to drive that side of the business.

"In the past," says Stefan Olander, Nike's director of digital content, "the product was the end point of the consumer experience. Now it's the starting point."

Wise words to live by, in this age of blurred lines and would-be customer thieves!

For further information contact:

Boston
28 State Street
16th Floor
Boston, MA 02109
Telephone: 617.951.9500
Facsimile: 617.951.9392

Chicago
One North Wacker Drive
39th Floor
Chicago, IL 60606
Telephone: 312.913.6400
Facsimile: 312.782.4583

Los Angeles
1100 Glendon Avenue
21st Floor
Los Angeles, CA 90024
Telephone: 310.209.9800
Facsimile: 310.209.9125

New York
650 Fifth Avenue
25th Floor
New York, NY 10019
Telephone: 212.582.2499
Facsimile: 212.582.8505

San Francisco
100 Pine Street
Suite 2000
San Francisco, CA 94111
Telephone: 415.676.5500
Facsimile: 415.627.9071

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