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AICC Keynote Speaker Interviewed:

Lanning: Spend A 'Day In The Life' Of Your Customer

by Jim Curley

At its Annual Meeting next month, AICC will continue its recent practice of having keynote speakers engage their audience in interactive sessions. On the heels of this spring's meeting and Neil Rackham's acclaimed session on "Rethinking the Sales Force," Michael Lanning will focus on "Delivering Profitable Value." Recently, we talked with Lanning, who gave us insights into the concepts he will develop in Boston.

BCN: Michael, what's your background and how did that help to formulate the insights in your book, *Delivering Profitable Value*?

Lanning: I started my career in brand management at Procter & Gamble, back in the 1970s. Then I joined McKinsey & Co., a consulting firm, to gain a broader exposure to marketing strategies. In the late 1980s, I formed an executive education firm. As I began to develop the ideas that would be included in *Delivering Profitable Value*, I wanted the firm to do more consulting and reformed it as DPV Group.

DPV consists of about a dozen people. We're a strategy boutique operation, helping clients understand what a Value Proposition is, how to discover them, and how to profitably align all the elements of a client's organization around delivering that proposition. We serve a wide range of industries, including a fair amount of consumer-related ones over the years. Most of our work is focussed on complex, long-chain industrial businesses, often ones in mature categories where there doesn't appear to be a lot of opportunity for growth and there are a lot of commodity pressures. We found that in these circumstances, our customers have to be focused on the value proposition of the people at the end of the chain, and then think through how to deal with the people in the middle of the chain in that context.

BCN: What is the basic message of *Delivering Profitable Value*?

Lanning: The message is that it is possible to generate profitable growth, often breakthrough profitable growth, by deeply understanding the entities in your whole chain and trying to infer from what they do today an improved scenario that you could help them to bring about. Most or

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ganizations are either internally driven or customer compelled, i.e., "I'll do whatever the customer tells me to do." On the other hand, my message is focused on finding and delivering value.

The problem with most companies in a commoditized, "pressure cooker" type of market is that they are constantly interacting with people on the customer's side who are conducting transactions; they're focusing on how customer's buy, not how they use.

BCN: One of the catchphrases of the past two decades has been "value-added." It's been variously

defined as multi-color printing, warehousing for just-in-time delivery, fulfillment for delivery of product to retail stores, etc. I note that in the book you say you're not too fond of the term. What wrong with "value added" and what would you substitute in its place?

Lanning: I wouldn't say that value-added is a bad idea per se, but the thinking behind the phrase bothers me. What it connotes to me is the following: "We've got this commodity product. Maybe we can add some services on top of it and make better than a commodity margin."

That's not so bad, but I'd rather people look at things more fundamentally; instead of starting with some commodity base and adding on to it, try to think about the experiences your customer has each day, what's wrong with those experiences, and what would a better set of experiences look like. What could you cause them to experience that would make them more successful, and then come back to ask, "What should our products and services include?" I might then come to a different base than that of a commodity product. I may do something creative and new, completely from scratch.

In a way, customers don't care about your product and the services you add; they care about their businesses. They want to succeed, sell more product, reduce their logistics costs, or they want to get to market quicker. Think about those "wants" and how to make them happen.

BCN: In a quest to discover the experience of customers, you talk about "videos," re-creations of these experiences by suppliers. Give us an example of such a video.

Lanning: We have developed certain methodologies that ask for the user to "walk a mile in the shoes" of their customers and as far down the chain as relevant. One of the techniques we employ is to tell our clients to think like a 12 year old. What I mean is to observe what the customer is doing, but be a little bit naive on purpose. Look at reality through a 12-year-old's eyes: see what's going on, but not in a "business school" kind of way and then imagine what it would look like if it were better.

It's a technique that can keep vendors from saying, "What do you want in a product?" or "Let me show you what we've got." Instead they're focused on what's actually happening.

Next month in Boston, we'll interact with the audience to have them play with some "videos" that they might use to structure an interaction with customers that will be a lot more insightful than just asking customers what they want.

BCN At what levels of the customer's company should this happen?

Lanning: It needs to happen at levels that include several functions within the customer's company. You need to talk with the customer's sales and marketing team as well as the general management to discover what their business needs are - beyond the transactional level. This search may require going beyond that customer. If the customer sells to retail, it may benefit you to observe what happens at the retail level with that manufacturer's box.

BCN: What happens when your contact is the purchasing agent, and he acts as a barrier? How do you break through that barrier?

Lanning: It's not easy. For smaller size converters, if they don't learn to break those barriers down, they'll have a hard time surviving. They need to get beyond the purchasing manager to have a bigger impact on their customer's business.

For the Boston meeting, I've already interviewed 8 or 10 senior managers who are members of AICC and found that a lot of these boxmakers are having success at getting to the right people in their customer's organization. If you're devoted to making it happen, you have to maintain a relationship with purchasing, but you have to go beyond that.

Purchasing doesn't own the business; purchasing has to sell its decisions back to general management and sales. If you are involved in making your customer's business more profitable, that won't make purchasing look bad. Part of getting beyond purchasing is taking the pressure off your salesperson. If you take other functions from your company into the customer and interact at a peer-to-peer, function-to-function level, the nature of the entire relationship between your company and your customer's company changes. As I noted earlier, a lot of AICC members I've talking to are already making it happen.

Independents have an opportunity to do something that their integrated brethren or offshore competitors can't do - that is, establish a relationship based on the fact that they are smaller, closer to the customer, more nimble and more responsive. Often independents are forced into strategic purchasing partnerships that may sound good, but often come down to getting beat over the head on price.

Not every potential customer can get beyond commodity purchasing; I'd advise independents to find customers who are smart enough to understand what you can do for them.

When you get into graphics, as many of the independents are, you can impact the customer's ability to sell. You can't get there by talking with purchasing or even manufacturing; you've got to talk with their marketing people. When you go downstream, you can find some amazing opportunities.

In Boston, we're going to talk about some of these opportunities and the role of design, which can provide an opportunity to lessen the reliance on your salesperson and get your whole team involved.

Another point about design: As boxmakers have adopted CAD systems, the people in that part of the business have changed. Where you used to have traditionally creative, artistic types, now you have more computer types. That may pose a problem. While these people may be comfortable in front of their computers, they may not be as comfortable walking into a customer's plant and discovering opportunities to uncover value for that customer.

BCN: In your consulting, you've worked with a couple of companies involved in our industry. What was that experience like?

Lanning: In both of those experiences, I found that there's a great opportunity to get out of the business of selling

board or boxes and get into the business of helping customers generate more revenue at lower costs to themselves. The competition isn't that good at doing that, because customers don't ask you to do that. There's not an emphasis on truly understanding the customer's business.

BCN: What is the role of upper management in delivering profitable value?

Lanning: If the leader doesn't understand the importance of an intimate knowledge of the customer's experience, his company is really in trouble. This isn't something he can just hand over to his sales force. To come up with non-obvious value propositions for customers takes a commitment from ownership - to hire, train and support a sales staff that can make this work, to make sure that all functions are involved, and to ensure that the company is focused on delivering value to customers. The sales staff alone will most likely not provide the insights into the customer's business that you need; the owner needs to get directly involved, not only in getting those insights, but also in deciding whether he's got the right people in design and in sales.

In his book *Rethinking The Sales Force*, my friend Neil Rackham says that companies need hunters and maintainers to find profitable business; I think they need explorers as well: people who can get creative insights about what will help the customers.

There may be people in your organization who can imagine running the customer's company and say, "If I ran this business, what would I be doing differently?" The leader has to find these people and support them both by giving them the tools to succeed and by exploring the customer's situation himself.

BCN: Michael, the book *Delivering Profitable Value* was published in 1998. Since then, have you come across issues in your consulting work that would cause you to modify the concepts developed in the book or develop new ones? Might there be a sequel to this book?

Lanning: One of the issues we've focused on in the consulting work is how companies in mature industries find opportunities in markets where they feel they've been commoditized.

We try to show people that these categories may in fact be underdeveloped and that they have to have the courage and the resourcefulness to rethink their business. In addition, some of our recent research shows that the image of purchasing people as merely gatekeepers may be incorrect; many we've talked with would like to see innovative input from suppliers, but they don't know how to get it.

Recently I've noticed that suppliers might say, "I've got some ideas that will save you money or increase your sales," but when the purchasing agent says, "Give me the hard numbers that show the value in terms of savings or increased sales," the supplier hasn't delved far enough into his customer's business to present the necessary data. The purchasing agent then has no alternative except to say, "The only hard number I have in front of me is the price."

The salesperson then goes back to his company and says, "The customer doesn't want to talk about anything other than price." That's actually the wrong conclusion: if the seller and the customer work together, they can develop the economic case for innovation.

Customers need to demand more innovation from their suppliers. They are passive about it. The purchasing function reinforces this passivity.

To answer your last question, this recent search and the results we're seeing might form the basis of another book.

BCN: What will be the format of your session in Boston?

Lanning: The session, which will run from 9:30 to 11:50 a.m. on Thursday, October 27, will have an open format with round-table seating, the same as you had for Neil Rackham's presentation. Rather than lecturing, I will briefly introduce case studies and concepts and ask the rest of the group to develop those concepts into superior resulting experiences for customers that AICC members can act upon.

We'll go back and forth on developing accurate and well articulated value propositions that will benefit both the boxmaker and his customer.

This is the type of audience I like to work with. They have great opportunities to grow their businesses. I gather they got a great deal out of what Neil did last spring and I hope to build on that.