

Return on Relationship versus ROI: Relationship Life Cycles and Collaboration

A short Brief on the differences in philosophical approaches between Product,
Customer and Relationship Life Cycle,

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Introduction

The 1970s were marked with management theories focused on Product Life Cycles. Companies were organized around how products were conceived, designed, tested, developed, approved, manufactured, sold and distributed. The theory was turned into practice and companies finally had a handle on how products come and go in the market place. However, the last word in the prior sentence highlighted the weakness of that focus: customers made up the “market” and therefore the customer-centric 1980s efforts gave way to Customer Life Cycle.

The past taught us to look at the transaction between buyer and seller and assume that this was the “end game.” The transaction was the consummation of the buyer/seller event. I do not use the word “relationship” here for a key reason that will become apparent in a moment. It is enough to say that the “transaction” was a single event, at a moment in time, when a product or service changed hands in receipt of some payment. The Customer Life Cycle provided a means for a seller to look at a buyer not just as single transaction but as an aggregated provider of transactions over the lifetime of that buyer/seller cycle. Instead of looking at a customer as a series of “one-off” orders, sellers were encouraged to define strategy as the overall long-term series of events that comprise the entire set of transactions that a given buyer will effect. Thus we moved from focusing on “getting the order” to “serving the customers needs”. Both approaches were customer-centric, but the latter was much more customer service driven. The primary result was a shift in the order taking process such that subsequent touches of the customer were more sensitive, caring and willing to assist in the hope that the same buyer would return to the seller for more business.

Both the Product and Customer Life Cycle models have proven to be one-directional in that the “customer is king”, and therefore the seller has little or no part in understanding the customers’ customer and their needs. In other words, the Customer Life Cycle never really moved beyond the simple aggregation of the value of all orders received over the lifetime (of the buyer or seller in that relationship.) The benefits accrued to Customer Centricity leading to Customer Life Cycle focus were greater than could have been achieved through any series of discrete, individual, “transaction” based Product Life Cycle processes. However, due to the one-directional information flow, there were still some significant benefits being left on the table. The most visionary and innovative companies wanted to steal a lead in the value chain race and to do this, the Relationship Life Cycle was developed.

Defining Collaboration

All companies communicate with their partners using three basic building blocks. They *exchange*, *integrate* and/or *collaborate* (as shown in Figure 1 below.) Exchange is the realm of the EDI providers or the early EAI (Enterprise Application Integration) providers. It is the simplest method that moves data from and to companies. There is no implied or explicit intelligence in the data – it is as simple as a buyer sending a static view of a range of Purchase Orders to a supplier. Once it was paper based, then it became EDI based, and now it is XML based. The technology available to do this is generally available today.



True Collaboration

- One, or both companies **EXCHANGE** data (*ERP*)
- Both **INTEGRATE** the use of this information in their respective computer systems/businesses (*Supply Chain*)
- Both **COLLABORATE** on the information leading to a revision and approval processes leading to confirmation of the information (*Collaboration*)
- All partners measure their success (or otherwise) on this new extended one-number plan

Figure 1
All companies Exchange, Integrate and/or (Truly) Collaborate

Integration was the main focus for many companies until recently. This is also where the EAI vendors exceed their promise because they do not get to the next stage. Integration has implicit and explicit connotations. Integration explicitly ensures that buyer and seller computer systems are tied together. As the buyer sends POS or demand data to the seller, the seller will automatically create a shipment in order to fulfill the buyer's needs. This was a single-directional flow of information. There was no collaboration. It was a series of discrete, one-way flows of information that was used "as is" unless it did not get processed by the systems in place. The implicit assumption was that the buyer/seller business processes were synchronized. And this was the failing of most standard Integration processes such as Vendor Managed Inventory (VMI) and Quick Response (QR). Systems integration was achieved but business integration was not.

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Collaboration is the key. This is where the two companies completely change the transaction and hence the relationship between each other. True collaboration is defined as:

1. Both companies jointly derive the information needed (forecasts, plan, order etc.)
2. Both companies have approval of the information
3. Both companies use the resulting planning information to execute
4. Both companies measure each others' performance to the plan
5. Both companies pay themselves based on that performance

There are several cases of where steps 1, 2, and even 3 are achieved but few examples of companies achieving the entire scope. This is a bi-directional model where iterative and flexible business processes are integrated in order to support a mutual strategy.

Defining the Relationship Life Cycle

The Relationship Life Cycle is the next phase beyond the customer life cycle. The Customer Life Cycle assumes that a seller should simply aggregate the value of all the orders that can be expected to be received (repeat business, additional sales, etc.) and therefore not risk future revenue by short-term efforts. This equation was very simple and the further the so-called relationship went, the less remaining revenue was forecast, as the assumption that some portion of the forecast had been realized.

For example, let's say that a new vacuum cleaner costs \$200. Let's say that the technology of the cleaner typically implies a product life cycle of five good years with little or no maintenance, and then rapidly decreasing utility. After ten years it is assumed that the unit is useless. Using the Product Life Cycle approach the seller optimizes the deal around the individual transaction. This ensured the highest price *at that point in time*. This is in stark contrast with the desires of the buyer who generally will tend to drive the price down.

The Customer Life Cycle steps in and says that if a reasonably good job of customer service is demonstrated, through the life cycle of the product (e.g. free or discounted maintenance), then the buyer might come back to the same seller to get a replacement. Therefore the buyer is not regarded as a single price tag of \$200, but as a possible series of price tags for \$1,000 over the duration of the buyer/seller lifetime. In other words, if the brand and service can suitably impress a particular shopper, he or she will continue to buy the same product or a suitable replacement until the buyer no longer needs such equipment, all things being equal. The result is that the initial order price is no longer maximized to the detriment of the long-term repeat business that might be accrued. Additional costs and investments may be needed on the behalf of the seller in order to attract such repeat business.

However, the relationship life cycle steps in here also. With the bi-directional flow of information that comes about as a response to true collaboration, the buyer and seller can work together to better maximize their mutual benefits. We could look at this another way: What if the buyer and seller, acting as a single value chain, worked *jointly* to better understand the customers' customer needs, so that they can both serve them better than any other competing value chain? In the B2B sense, this would mean that a buyer and seller collaborate as strategic partners and exploit each other's assets to further serve and surpass the customers' customer service expectations. This would lead not only to repeat business but new business, new segments, new locations or geographies, new industries and so on. This is not achieved through the simple view of aggregation of a series of hoped-for orders. This is achieved through a deep commitment or marriage between companies who share a common strategy. It is a rare thing but when achieved, it can create dynamics in a value chain that other companies will pale under the threat. This is the value of a Relationship Life Cycle. Some may argue that this description fits their interpretation of Customer Life Cycle. If this is the case, I would suggest that they are stretching the original goal of the model and are in fact simply supporting the objectives and philosophies of the Relationship Life Cycle.



Evolution in Life Cycles...

Product	Customer	Relationship
• Taking Orders	• Repeat Orders	• Leveraged Assets
• Win	• Win/Win in name	• Win/Win in actuality
• Cost Focused	• Sales Focused	• Value Chain Profit
• Industrial Economy	• Services Economy	• Digital Economy
• Asset-based	• People-based	• Information-based
• Entry Point	• Continuous	• Disruptive
• Inventory	• Customer Service	• Competitive Advantage
• Mfg. Strategy	• Sales Strategy	• Organizational Strategy
• Operational	• Tactical	• Game Changing
• Lead Generation	• Segmentation	• Re-defining
• SKU	• Whole Product	• Future Product
• Today's Needs	• Additional Needs	• Future Needs

*Figure 2
Comparing Product, Customer and Relationship Life Cycle models*

Collaborative Planning, Forecasting and Replenishment (CPFR[®]) is a perfect example of a process model that takes as its basis the objectives described by a Relationship Life Cycle. CPFR looks beyond a single transaction, and even beyond all the orders that are needed to be satisfied over the current planning horizon. It engenders a relationship such that buyer and seller intend to change the rules of competition in that value chain. Vendor Managed Inventory (VMI) and other Continuous Replenishment strategies are good examples of “best practices” associated with the Customer Life Cycle view. All are excellent models that meet the objectives set by companies at those times.

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Where Collaboration Starts and Ends

The figure below shows where the elements of *exchange*, *integrate* and *collaboration* are most applicable throughout the series of iterative processes that take place between buyer and seller. The simple aggregation of orders derived through *exchange* and *integration* would equate to the Customer Life Cycle model. The inclusion of *collaboration* extends this model to that of the Relationship Life Cycle.



Relationship Life Cycle



Exchange - Send and Receive Data, EDI

Integration - Process Synchronization across trading boundaries, VMI

Collaborate - Jointly Derive Data, CPFR, CTM

Figure 3

Where Collaboration steps in as highest priority to move from Customer to Relationship Life Cycle

Relationship Life Cycles and Net Markets

The evolution of the Net Market phenomena has been outlined in a previous paper (See *The Rise and Fall of the Trading Exchange*, 1999.) In this paper we foretold many market changes that have come to pass; some are still working their way through. However, one might ask, “where does the relationship life cycle fit with all this talk of the New Economy?” The answer to this question is quite simple. One needs only to look at the characteristics of the product or service that is the focus of the question.

In the general Net Market model today the focus has been on processes that require the following:

- Visibility
- Transparency
- Frictionless
- Liquidity

Visibility represents the openness that processes need to attract in order for many buyers and sellers to interact. Such processes include auctions (and reverse auctions) where efficiency is enhanced when the offer (or buy) is highly visible to multiple buyers (or sellers). In all cases low barriers to entry are highly desirable in order to get access to the largest part of the market.



B2B Models: Trade Exchange

- Commodity, MRO, Indirect Materials



 Effort, Cost, Return

- Majority of market activity to date
- Trade Exchange/Net Market
- Anonymous, public, Many-to-Many

Figure 4
Trade Exchange focus to Date

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Transparency is where the all information flows freely between interested agents in the processes. This means that there are no preferential relationships, hidden or otherwise, that would influence transactions and processes between parties. This often materializes in the form of an issue relating to ownership of the Net Market.

Friction concerns itself with the speed at which data and the process in question "moves". Dynamic pricing needs to be as close to real time as possible, and it requires visibility in some cases. Making a "buy" decision on a stock price that is delayed 20 minutes is a very risky business. Basing a key decision for a buyer or seller in a similar manner could spell disaster.

Liquidity refers to the profit that is created from a successful business that has created an impelling reason for both buyer and sellers to congregate at that location. Some have said that a centralized net market should make markets more efficient. If it succeeds in making a market more efficient, that in itself would make it a compelling reason for buyer and seller to attend. And that benefit could be chargeable. The profit thus accrued would comprise the liquidity of that (net) market. The 'what' that causes buyers and sellers to return is "stickiness". A centralized, public service offering needs to offer "sticky" services that create a need in the mind of the buyer and seller, so that they return. When this is not achieved, the net market will fail.

With this in mind the Trading Exchange model has so far supported the *exchange* and *integrate* processes between (B2B) organizations, such as those that are associated with customer orders or purchase orders. (See figure 4 above.)

Additionally other components of the Relationship Life Cycle were focused on product design and dynamic pricing. As it stands, dynamic pricing is an exciting area that will develop further, and create a very creative market in and of itself. Product design, as a B2B business process, has more recently been applied to private exchanges and found to be less applicable to the public gaze on an open net market. This is because the nature of the characteristics of product design is not consistent with those of public net markets! In the high tech industry, collaborative product design between stakeholders of a value chain is common - as it is in the automotive industry. However, each model is in fact a very private affair between a buyer and their partners - rarely between mortal enemies. For private net markets, the following characteristics hold:

- Visibility
- Velocity
- Stickiness
- Collaboration

Visibility here is similar to that defined for public Net Market processes. Velocity may sound like friction, but it is different for good reason when applied to private exchanges. Velocity here implies that data and information need to move quickly and speedily between systems and the Net Market. Additionally, business processes need to be speeded up.

Stickiness refers to the reason why buyers or sellers come back to the site to do more business. In a private net market, by definition, a relationship exists between buyers and sellers and therefore business is taking place automatically. In the case of a buyer-centric private net market, many suppliers are brought together as

preferred trading partners. This would be an inefficient model to facilitate public dating services that are the bailiwick of the public Net Market. This is obvious as replication of the processes and integration need not take place, and would not be cost effective. Competitive differentiation is at the heart of this issue and is best served through private relationships between organizations that run deep. This is delivered via private exchanges and not on public Net Markets. More simply, why bother to pay a third person for access to a common service that is supposed to, by definition, offer uniquely competitive services?



B2B Models: Collaborative Community

- Differentiated, Branded, Few Sources, Production or Direct Materials



 Effort, Cost, Return

- Community Model
- Real "end game" for high-value Value Chain
- Private, one-to-many

*Figure 5
Collaboration is more important for Forecast and Promotion Planning processes*

Figure 5 highlights some of the other components of the Relationship Life Cycle that attract a high value-add for collaboration.

Value Proposition and Summary

The concept behind the Relationship Life Cycle will result in the following benefit scale, shown in the figure below:



Evolution in Life Cycles...

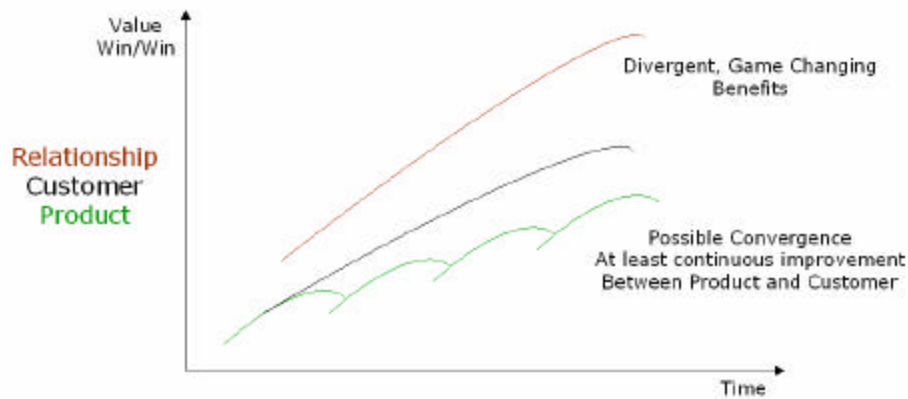


Figure 6
Benefits are greater and more speedily achieved

Figure 6 demonstrates that the life cycle focus, as described in this paper, has been more of an evolutionary approach in how organizations view the customer relationship. The benefits for product life cycle are shown to be continuous and overlapping. The focus of Customer Life Cycle suggests that additional benefits might be achieved. This is arguable, as simple aggregation would suggest no difference over the long term. However we can assume that some level of good will would be achieved and therefore some "natural" increase in revenue for the seller in question is achieved. The benefits attributed to the Relationship Life Cycle are clearly greater and more speedily achieved when the buyer and seller align their strategies and work together. This is both intuitive and logical. It has also been demonstrated in the early work associated with CPFR when real examples of win/win have been realized. It remains to be seen which software providers "get it" sufficiently in order to capitalize on the relationship life cycle.

ERP providers are generally focused on the Product Life Cycle. ERP was, and remains internally focused by design, and not on the business process between organizations. This is because in the ERP era, B2B was synonymous with EDI. Advanced Planning and Scheduling (APS) typically extended the view to include the customer. This was chiefly due to Demand Chain Planning, an element often overlooked in Advanced Planning and Scheduling (APS) discussions that typically focus on factory scheduling and optimization. In Demand Chain Planning, demand

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forecasting represents an effective and integrated business process that helps sellers quantify what a customer means to it, in terms of dollars, products, over an extended planning horizon. APS certainly got closer to Customer Life Cycles but did not achieve it completely.

CRM also gets us closer but again does not fulfill the promise of Relationship Life Cycle. It is this paper's supposition that a combination of CRM and APS (Demand Chain Planning) can and will in time deliver a complete, Relationship Life Cycle Planning business process. Collaborative Planning, Forecasting and Replenishment is one of the first and today is still, the most advanced truly B2B business process. As I have said on many occasions before, "CPFR is the 2 in B2B". This is no light-hearted joke. To take advantage of the new economy we should look to disruptive, game-changing business processes that promise to herald a new competitive environment. Relationships are the key to this next step. And relationships are two sided. The customer is no longer king if the people move to another land!

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The Rise and Fall of Trading Exchanges, Andrew G. White, Logility, Inc., www.b2b-icommerce.com or www.logility.com, 1999