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Understanding the Process of Transitioning to Customer Value Management*

by

Dr. D. V. R. Seshadri
James A. Narus
B. Muthuraman
Anand Sen

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Please address all your correspondence to:

Dr. D. V. R. Seshadri,
Visiting Faculty,
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 560076, India
+91-80-6993260 (telephone); dvrs@iimb.ernet.in (e-mail)

James A. Narus, Professor of Business Marketing
Babcock Graduate School of Management, Wake Forest University
Suite 150, One Morrocroft Center, 6805 Morrison Boulevard
Charlotte, NC 28211-3551, USA
704.365.6717 (telephone); jim.narus@mba.wfu.edu (e-mail)

B. Muthuraman, Managing Director,
The Tata Iron and Steel Company Limited, Jamshedpur-831 001, India
+91-657-243 1595 (telephone); muthuraman@lot.tatasteel.com (e-mail)

Anand Sen, Chief (Marketing and Sales) Flat Products,
The Tata Iron and Steel Company Limited, Kolkata-700 071, India
+91-33-2288 5144; asen@tatasteel.com (e-mail)

Abstract

Customer Value Management (CVM) has emerged as an important vehicle for customer retention in business markets. Supplier firms under increasing pressure from relentless competitive forces are seeking to retain and grow the share of business from profitable existing customers as a means of finding a way out of downward spiraling price pressures. While a lot has been written in academics about the importance of CVM, several gaps remain on understanding how a large company actually undertakes this journey.

Crafting competitive value chains and focusing on steams of competition are also emerging as important agenda for supplier firms since increasingly, the end customer is no longer willing to pay for inefficiencies in the value chains. In this context, the challenge for a supplier firm in business markets is no longer restricted to getting its own operations in order, but additionally it must ensure that multiple interfaces that exist across the entire value chain all the way until the end customer are streamlined so that the value chain is free of value drains and every meaningful opportunity to create value is exploited.

In this paper we present the experiences of the India-based Tata Steel, in implementing CVM across fifteen select customers, This has enabled it to successfully come out of the commodity trap that it found itself some two years ago. The company has been assessed at a score of over 650 over the last three years on the equivalent of the Malcolm Baldrige business excellence assessment, crossing 700 in the most recent year. Tata Steel is one of India's most respected companies and among the top steel manufacturers in the world (as rated by World Steel Dynamics, USA).

The paper begins with an overview of existing research in the area of CVM, covering the important aspects of customer loyalty, customer relationships, trust as an antecedent for relationships, value as a cornerstone of business markets, and importance of the supplier firm focusing on the value chain. While one part of the challenge for a supplier firm is to find avenues to create and deliver unique value to its customer firms, an equally formidable challenge is to obtain equitable return for value delivered. This is where value sharing through integrative negotiations between the supplier and customer firms becomes central. We conclude that current understanding on value creation and value sharing is at a preliminary stage. This is the gap that the paper seeks to address, based on the actual experience of the company in implementing CVM.

We present several lessons that may be useful to large firms seeking to embark on the CVM journey. Indeed, reorienting a large company to implement CVM is a huge challenge, as the task is akin to 'turning around an oil tanker on the high seas'. One of the key lessons learnt is that CVM is a never-ending journey that requires the long-term commitment of the top management in order to be successful. The paper presents a framework for mapping the various ideas generated in the CVM implementation process, and attempts to build a value sharing methodology based on CVM experience of the company. We conclude with several challenges that the company has to grapple with in its further progress on its CVM journey. One of the important challenges is addressing value drains and discovering new value creation avenues along all the interfaces between the various firms constituting the value chain, all the way until the end customer.

Key Words

Tata Steel, Business Markets, Commoditization Spiral, Customer Value Management (CVM), Value Drains, Value Creation, Value Sharing, Customer Retention, Growth of Customer Share of Business, CVM Objectives, Prerequisites for CVM, Phases of CVM Implementation, Mapping Ideas in CVM, Transformation of Supplier Firm Consequent to CVM

Introduction

As companies worldwide battle the relentless forces of customer, competitor and change, they are seeking solutions to continue to remain profitable and grow. Research has shown the merits of retaining good customers, and thereby increasing the customer share of business as an important means of achieving this objective. Although academics and pundits (i.e., business magazine writers) cavalierly exhort companies to market higher value-added products and services and to actively pursue "collaborative relationships" with a handful of potentially profitable customer firms, the actual process of implementing such a significant change in strategy requires investment of considerable resources, time, and effort. In the case of a large corporation, the task is akin to "turning around an oil tanker" in that it requires a complete change in organizational culture, structure, incentives, mindset and overall values.

In this paper, we provide insights on how one such company – The Tata Iron and Steel Company Ltd., India (Tata Steel, for short) -- has successfully managed to do so, through its now successful program, 'Customer Value Management (CVM).' Tata Steel has annual revenue of about US dollars 3 billion, PAT of about US dollars 400 million, EVA of US dollars 190 million, and 40,000 employees. Two years ago, it sought to exit the commoditization spiral through growing share of business with select customers through a strategy of customer retention via its CVM initiative. Specifically the focus of the paper is on better understanding the important issue of value creation and value sharing between the supplier and customer firms.

We begin by a brief review of the research on customer value management in the context of business markets, with specific focus on value creation and value sharing. We then briefly introduce the company and the context in which it embarked on the CVM journey. This paper presents insights related to the process of a supplier firm transitioning to customer value management from hitherto commoditized selling situations in business markets. The theories presented in the paper are based on case study research, using the methodology of Grounded Theory (Eisenhardt, 1989) The cases are based on the experience of implementing a 'relationship migration strategy' (Narayandas, 2002) for key customers, from transaction selling (Rackham and DeVincentis, 1999) to more collaborative supplier-customer partnerships. There is not a lot written in the academic literature about how a large firm evolves in this manner. This paper seeks to fill this gap. The paper will present several hypotheses, based on the case research, which will lay the foundation for further exploration of this important and very interesting area.

We present the essential prerequisites that both supplier and customer firms have to fulfill before embarking on the CVM journey. CVM has been touted as a mantra for companies to come out of the commoditization spiral. However as Tata Steel has found, there are several important requirements that both supplier and customer firms must fulfill before getting into such a relationship. We then discuss the conceptual underpinnings of CVM and its broad philosophy that Tata Steel used in launching its own version of CVM. The key steps in implementing CVM are discussed briefly. We then discuss the importance of classifying ideas generated in CVM that the company found useful and present an 'idea mapping' framework. These value-bearing ideas when implemented result in plugging value drains or creating new sources of value or both, for the supplier and/or customer firms.

Value sharing between the supplier and customer firms is an important yet not very well-understood area of CVM. We devote a significant portion of the paper to discuss the approach that Tata Steel adopted to share the value created for each of the idea categories in the 'ideas map'. We next present the key lessons that the company has learnt. To illustrate the concepts of value creation and sharing, we present several examples on how this was done by the company, including a detailed example in Appendix-I. Since the primary contribution of this paper is to understand the process of value creation and value sharing, we present the key lessons the company has learnt on these important aspects. We discuss how CVM has transformed the organization. Finally we present the challenges ahead for the company, and areas for further research.

Overview of Research on Customer Value Management in the Context of Business Markets

Business marketing research has espoused the merit of customer retention as a more effective strategy for a supplier firm rather than seeking to continually find new customers to replace defecting customers (Anderson & Narus, 2004). This puts significant onus on the supplier firm to seek and create a strong relationship between itself and the customer firm. Customer loyalty, an essential pre-requisite for customer retention, is closely linked to building strong relationships between the customer and supplier firms.

Customer Loyalty a Key to Customer Retention

O'Brien and Jones (1995) suggest the need for a 'strategic sustainable approach' to achieve customer loyalty, measured in number of years that the customer firm does business with the

supplier firm. They also suggest that a supplier firm must find ways to share value in proportion to the value the customers' loyalty creates for the company: "In order to maximize loyalty and profitability, a company must give its best value to its best customers." Jones and Sasser (1995) discuss the intrinsic non-linearity of the relationship between customer loyalty and customer satisfaction and conclude that it is important from the supplier firms' perspective to completely satisfy its chosen customers in order to obtain the customer firm's loyalty and better long-term financial performance, especially in intensively competitive commodity markets. They advocate the need to carefully choose the right customers and have robust processes to serve them.

Reichheld (1996) discusses the many challenges in retaining good customers. Among these, he cites inadequate understanding on the part of supplier firm managers about what goes into retaining a good customer, inability to confront unpleasant truths, the supplier firm's organizational dynamics, difficulty in analyzing the customer defection problem, etc. They demonstrate a strong negative correlation between customer defection and cash flow / profitability. Reichheld (2001) presents a prescriptive approach for a supplier firm to build loyalty with its various stakeholders, and more particularly ways of building customer loyalty. Among them are: ability of the supplier firm to pick the right customers, a culture of seeking out and acting upon customer feedback and rewarding loyalty.

Intuitively, it would appear that the relationship of a supplier firm with a customer firm is held by the 'last frontier' of the supplier firm. Typically in most supplier firms, this is the responsibility of the customer account manager who handles the customer account. Bendapudi and Leone (2001) point out the vulnerability that this could pose, in that a star customer account manager leaving a supplier firm may in turn catalyze the drift of the customer firm away from the supplier firm, and into the hands of a competitor. They suggest various solutions a supplier firm could adopt to address this concern, which include: developing simultaneously broad and deep bonds with the customer firm that transcends any one employee, and proactive communication with the customer firm.

Although many scholars have advocated that supplier firms should focus on fostering loyalty of their customer firms, Reinartz and Kumar (2002) caution that while customer loyalty is very important and enticing, a supplier firm must ensure that it does not seek to enhance customer loyalty as a pursuit in itself, without simultaneously addressing the important issue of customer account profitability. Based on their research, they have concluded that 'no company should ever

take for granted the idea that managing customers for loyalty is the same as managing them for profits.' They have also developed an elegant framework for segmentation of customers on the twin dimensions of loyalty and profitability, and suggest that the supplier firm should seek to implement a loyalty strategy.

Strengthening Relationships with Select Customers as a Means to Loyalty

Given that fostering customer loyalty while ensuring profitability is a key objective of marketing, particularly in business markets, supplier firms have to concern themselves with strengthening relationships with select customers. Research in the area of strengthening relationships with select customers has been an important focus area of academia for the last several years. Levitt (1983) in his perspicacious article suggests that the buyer-seller relationship is akin to a marriage, with the first sale merely consummating the courtship. He highlights the importance of constructive interactions including attention to the purchaser's complaints and their future needs, as vital ingredients to sustain the relationship between the two firms: "The quality of marriage determines whether there will be continued or expanded business, or troubles and divorce."

Dwyer, Shcurr and Oh (1987) in a seminal paper have suggested that rather than look at buyer-seller exchanges as discrete events, it is more appropriate to view them as an on-going relationship. They present a framework for enabling supplier firms to develop a marketing strategy in the context of developing buyer-seller relationships. Anderson and Narus (1991) have suggested that while practitioners and academia extol collaborative relationships as a panacea, unless there is strategic thinking about working relationships, the whole partnering effort by a supplier firm with its customer firms can be wasteful at best and disastrous at worst. They present a step-by-step process of enabling the company to make this shift towards strategically thinking about and then implementing collaborative relationships. The cornerstone of their approach is the central role played by **'Value'** in understanding and implementing this shift towards a strategic partnering approach, particularly in business markets.

Marn and Rosiello (1992) remind supplier firms that doing business profitably in the only way of doing business and caution them that any product offering by a supplier firm can have a wide 'pocket' price band. In the absence of a disciplined approach to tracking transaction-level pricing, managers may be gifting away profits, often to the wrong customers. De Souza (1992) suggests that supplier firms closely monitor and actively manage around customer defection. He suggests that the company should identify and erect barriers that prevent its chosen customers from

switching to competitors. Hamel (2002) cautions that while customer lock-in is very tempting, if not well conceived, can boomerang on the supplier firm.

The focus on building stronger customer relationships has given fillip to a plethora of IT-based solutions under the broad umbrella of Customer Relationship Management (CRM) packages, as the panacea to address all customer-related problems. Rigby, Reichheld and Schefter (2002) posit that blind implementation of such packages without a strategic approach to managing customer relationships could take the supplier firm on a disastrous course. They urge instead that the firm creates a robust customer strategy before taking the plunge to implement CRM packages. They also discuss the broader challenge of managing organizational change before embarking on implementing CRM packages.

Trust as an Essential Enabler for Building Relationships between Supplier and Customer Firms

Creating trust is fundamental to relationship building and this aspect has been extensively researched. Rackham and DeVincentis (1999) have pointed out that the meaning of trust changes from trusting the product / service in transactional selling, to trusting the person making the sale in consultative selling and trusting the supplier firm in strategic selling. Morgan and Hunt (1994) have found that trust is central to strengthening relationships with customers. They see relationship marketing and marketing activities directed toward establishing, developing, and maintaining successful relational exchanges as synonymous, and identify ten different forms of relationship exchanges involving suppliers, lateral organizations, customers, one's own employees, etc. They note that ironically, to be a successful competitor in today's intensely competitive and dynamic marketplace requires one to be an effective co-operator within a chosen network of organizations. In turn, cooperation requires relationship commitment and trust. They also suggest actions by both the partnering firms in the relationship that will foster both relationship commitment and trust.

Gundlach, Achrol and Mentzer (1995) present the enablers and inhibitors of commitment between two firms engaged in an exchange relationship. Wolff (1994) provides a prescriptive framework from a practicing manager's perspective for creating trust in the alliance between two firms. Doney and Cannon (1997) present an inter-disciplinary framework listing the antecedents and consequences of trust in the relationship between firms in business markets, where the trust of the supplier firm as well as the trust of the salesperson are both vital in influencing the buyer's future behavior.

Importance of Making the Supplier Firm's Value Streams Competitive

Increasingly scholars admonish firms to focus on value creation to their customers as the central purpose of their firms. Ghoshal, Piramal and Bartlett (2000) suggest that a firm's 'Value Creation Logic' is a key anchor around which all that the firm does revolves. The implication is that, if as Anderson and Narus (2004) argue, the supplier firm understands, creates and delivers value to its customer firms, business performance would ensue. They have presented a lucid and practical definition of value and describe several processes through which the firm may excel in executing each of these three 'Meta' processes. They note that in view of the commoditization that is a reality in most markets, a firm that ignores 'Value' as the central mantra does so at its own peril.

To exit from the commodity trap, firms are increasingly creating value through market offerings, which are bundles of products, services, programs and systems (Anderson and Narus, 2004). In this way they seek to differentiate themselves from competitors. While it is easy to gift away value to the customer firm, the challenge for the supplier firm is to extract equitable return for value delivered. Services (an omnibus term used to connote services, programs and systems) are a major lever that a supplier firm has, which can be used to differentiate its market offerings from that of competition, especially in what appear to be commoditized markets. Hart, Heskett and Sasser (1990) point out that mistakes are a critical part of every service, since services imply significant human element in their delivery. While various quality processes that a firm implements can reasonably guarantee that products meet specifications, there is no such infallible system yet to guarantee perfect quality of services at all times. They suggest that given this reality, supplier firms should put in place service recovery systems, and they describe ways of doing this. While they focus on service-intensive businesses in consumer markets, these ideas are valid for the service-related aspects of business markets as well.

The emergence of value as central to the exchange between supplier and customer firms in business markets has resulted in the emergence of customer value management (CVM) as an emerging focus area for supplier firms (Narayandas, 2002). The evolving consensus is that it is not adequate to look at supplier-customer relationships as isolated exchanges. Instead the concept of value chain where a firm in business markets is part of a larger ecosystem in delivering value to the end customer is becoming central to ensuring sustained competitiveness of firms in the value chain.

Scholars have clearly demonstrated the centrality of competing value streams as the future face of competition. Starting from the seminal work of Prahalad and Hamel (1990) wherein they underscore the importance of the core competence of the corporation, many scholars have urged firms to craft competitive value chains. Stalk, Evans and Shulman (1992) discuss principles of capabilities-based organization. Hammer (1997) in his landmark work, presented the picture of an organization as a summation of value-adding processes. He suggests (Hammer 2001) that the firm must seek to virtually integrate so as to be an effective part of a competitive value chain rather than attempt to do everything by itself through vertical integration. In this way, each firm in the value chain seeks to do what it is best at doing, thus maximizing value creation for the end customer.

It is clear that competitiveness of a company that was so vital to its success in the 1980s has now expended in scope in that the firm has additionally to ensure that the value chains that it chooses to be part of that provide value to the end customers must be competitive as well. This perspective further reinforces the central importance of relationships and networks (Anderson and Narus, 2004). A firm's deftness in co-crafting such value chains effectively with other firms through collaborative partnerships could well be a prerequisite for business success of firms in the future. Anderson, Hakansson and Johanson (1994) have interpreted dyadic business relationships in the context of business networks, since in practice the dyadic relationships exist within a broader network, thus affecting and being affected by other relationships in the network, to a greater or lesser degree. They point out that extrapolating the understanding of stand-alone one-to-one relationships between firms in order to understand relationships in the context of many-to-many relationships that exist in a value-creating network of firms is inadequate and suggest the need for new paradigms.

Orienting the Entire Supplier Firm to the New Challenge of Delivering Value to Customer Firms

The tectonic shifts that we are witnessing on what it takes for supplier firms to survive and flourish in the changed environment, that Jaworski and Kholi (1993) aptly have characterized by competitor intensity, market turbulence and technological turbulence, makes it imperative for the supplier firm to be market-oriented. However this is no longer the task for just the marketing and sales function in the organization, but encompasses all the key functions in the supplier firm as well as in its larger ecosystem of value creating associated firms in the value chain. Day (1994) presents a comprehensive checklist of capabilities that a supplier firm must have to be market-driven. One of the key underlying capabilities a firm must have to enable it to create the synergy

from its many sources of competitive advantage is the ability to constantly learn from its markets. This focus necessitates ability for the company to create and utilize knowledge, as Nonaka (1991) points out.

Translating these organizational imperatives into reality requires extensive focus on internal business processes and learning & innovation processes that the organization must excel in as Kaplan and Norton (2004) have emphasized. Indeed, in the absence of a clearly formulated strategy, followed by translation of the strategy into a form that is widely understood in the company and finally finesse in implementing the strategy, creating customer value could remain a mirage for the firm. The gap between strategy formulation and implementation is a bane that occurs with surprisingly high frequency in many companies, as Bossidy, Ram Charan and Burck (2002) have noted. Noting that execution is a key, one of the important ways in which a firm can become a valuable contributor to its chosen value chains is to benchmark itself against the best, on carefully chosen parameters, as Tucker, Zivan and Camp (1987) urge companies to do.

What does the Supplier Firm Get in Return for Delivering Value to its Customer Firms?

While there has been extensive research on how firms may understand, create and deliver value to customer firms, there is not a lot written on what the supplier firm ought to do to ensure equitable return on value delivered. Anderson and Narus (2004) emphasize that it is the responsibility of business market managers of the supplier firm to ensure equitable return for the supplier firm, while delivering value to their customer firms, and urge them to transform from being 'value spendthrifts' to 'value merchants.' Thomson and Anderson (2000) present through several examples in the context of a firm supplying medical supplies to hospitals, how supplier firms may pursue risk sharing and gain sharing. They suggest that such arrangements are beginning to occur in other industries as well.

Jap (2001) has pointed out to the paucity of research on value sharing, while recognizing that there is extensive research on how collaborative relationships ought to work to achieve the goal of expanding the pie of benefits between the firms participating in these relationships. They imply that firms should practice integrative negotiations (Fisher, Ury and Patton, 1991 and Anderson and Narus, 2004) rather than distributive negotiations. Based on a survey of 300 managers, Jap (2001) presents the principles of equity and equality as possible ways of sharing the value pie. The sharing principle will affect the dynamics of the relationship between the collaborating firms. Hence the choice of an appropriate principle that helps in achieving the goals of the collaboration are

important. Jap (2001) describes the complexities involved in the collaboration contexts such as uncertainties in resources and output, information asymmetries, intangible aspects and non-comparable factors and processes, that make the issue of value sharing a challenging problem.

From the summary of research in the area of CVM discussed above, it is clear that there are significant gaps in understanding the important aspects of value creation and value sharing in CVM relationships. This paper seeks to throw some light on these aspects, based on practice. It focuses on value creation and value sharing in the context of collaborative supplier-customer relationships in business markets. It does this through the experience of Tata Steel's CVM journey with fifteen customer firms over the last two years.

About Tata Steel

Tata Steel, India's oldest steel manufacturer is one of the most respected companies in the country. It is part of the US dollars 10 billion Tata group, and was formed in 1907. The company, with a capacity of 4 million tons of finished steel a year (going up to 7.5 million tons per annum by 2007), employs about 40,000 people and its turnover during 2003-2004 was about US dollar 3 billion. It is fully integrated, and its operations commence from iron ore mines and collieries, and end with supplying finished steel to its chosen customers. It caters to both business and consumer markets, although the focus of this paper is on the former. It has a market share of about 15% in the Indian market. Until 1992, the company was operating in a government-controlled, protected economy. With the liberalization of the Indian economy in 1992, the company was forced to reckon with global competition, like all major steel manufacturers in the country. In view of these changes in the environment, the company embarked on a journey to fundamentally transform its relationships with its select customers in its business markets through its homegrown version of the 'Customer Value Management' (CVM) initiative.

Product-Market Scope

Tata Steel has a wide variety of product lines, which fall under two broad categories, viz., flat products (such as cold rolled coils and hot rolled coils) and longs (such as rebars for the construction industry, wire rods for making wires, etc.) The company straddles both business markets and consumer markets. Much of the company's products are sold in India and around 15% of its product is exported. In the domestic business markets, the company has a wide variety of customers, including many large Indian and multi-national firms. Competition is intense in all its markets.

Motivation for Tata Steel to Launch the CVM Initiative

By 2002, the company had a total of over 1500 business market customers, spanning both flat and long products. In addition, the company had a large number of retail consumers who buy steel infrequently for constructing homes and other such applications. Given its relatively modest capacity (by world standards) of 4 Million Tons Per Annum (MTPA), accounting for about 15% of Indian steel consumption, the company could not aspire to be a predominant volume player in the market. At the same time, the company wanted to steer clear of being seen as a commodity supplier, with resultant unrelenting pressure on prices and margins. These factors prompted the company to examine its portfolio of customers, and through a process of customer rationalization, it attempted to migrate some of the most promising accounts from transaction selling to the more collaborative mode of consultative selling and more recently has succeeded in moving some of these accounts into a strategic partnerships (Rackham and DeVincentis, 1999). For this migration of customer relationships, it chose to focus on select customers in the automobile and construction industries, as these were perceived as high growth sectors in the country.

The primary motivation of the company's top management in launching CVM were:

- Design and implement a fitting response to intense price competition for low value-added steel, through value-added products for selected customers via close partnerships.

- Tata Steel needed to seek new sources of growth. Rather than pursue 'new sales to new customers,' and face relentless price wars, the company decided to explore ways of 'selling more to existing customers' through a strategy of customer retention and growth.

- Understand, challenge and improve the efficiencies of value chains with chosen customers. Through CVM, the company sought to eliminate value drains and create new sources of value in these value chains.

- Create a non-price agenda in its dialog with select customers, and share the value created in an equitable manner.

Prerequisites for Engaging in a CVM Relationship Based on Tata Steel's CVM Implementation Experience

Tata Steel found that the seed for success or failure of the CVM implementation with a customer lies in the right choice of the customer. It has found that choice of the customer for undertaking CVM could either make or break the CVM implementation initiative with that customer. The criteria that emerge from its CVM implementation experience can be crystallized into the following four dimensions.

Industry Leadership of Both Supplier and Customer Firms

The basic premise of launching CVM has been the belief at Tata Steel that in order to be successful, it must have customers who are winners, and vice-versa. Based on a portfolio analysis of the industries and customers that it caters to, it selected automobile and construction as the primary industries to operate in. In each of these chosen industries, it seeks to be the top supplier to its selected CVM customers. This process of understanding that each firm (Tata Steel and the customer firm) needs the other and together there is a possibility of creating synergy is a fundamental prerequisite for initiating a CVM relationship. Tata Steel has found that since the philosophical underpinning of the CVM program is to enhance value chain competitiveness, it is sustainable only when there is reasonable parity in terms of the stature of the supplier and customer organizations within their respective industries. For the relationship to succeed, it is best if both are in their respective top quartiles. Only then can the value stream formed by a combination of these firms have a chance of becoming a winner in the long term.

This does not mean that Tata Steel would not do business with those customers who are not in the top quartile of their respective industries. For such customers, the company would have to design a different package, with a different set of objectives.

Culture of Long-term Thinking

The importance of good cultural fit between the supplier and customer firms cannot be over-emphasized. Value in the context of CVM can be created and shared only if both customer and supplier understand that together they are focused on maximizing gains to both of them, fully recognizing that one or the other firm will gain a little more or less in each particular value-creating 'episode.' A clinical mindset on the part of either firms, wherein every time there is some thing to be shared, it must be shared equally, will not work. It also requires both firms to recognize that in the short-term, both may lose some value. To ride this trough requires patience and

recognition that if jointly the two firms do not go through the CVM journey, there will be no gains for both to garner in the future. It is vital that both firms recognize the fact that on this journey there could be some situations that entail additional costs that one or both firms may have to incur, at least in the short-term. This can only come about with maturity of the organizations to take a long-term perspective of their relationship.

Such a mindset transformation on the part of both supplier and customer firms hinges on the reasonable financial stability of both firms. If for example, either the supplier or customer firm or both were preoccupied with existential issues, it would perforce have to think short-term. If on the other hand, both were doing well and reasonably good performers in their respective industries, with reasonable financial health vis-à-vis competition, only then can they manifest the patience and courage required to make CVM work.

Organizational Maturity and Preparedness

Tata Steel has found that it is essential for both customer and supplier firms to have reasonable maturity in terms of their respective processes, systems, etc., to undertake the CVM journey. Its own business excellence journey over the last fifteen years demonstrates this point. Until 1990, the company with several decades of history (it started operations in 1907) was used to doing business in a government-protected environment. Suddenly it had to contend with fierce competition as the Indian economy was liberalized and opened up to both domestic and foreign competition during the early nineties. From that difficult period to its current leadership position has been a long journey.

Phases of Business Excellence at Tata Steel

The company's journey of its business excellence had three distinct phases:

- **Phase-I, Earning the Right to Grow:**
  First the company had to earn the right to grow. In the early 1990's, soon after the liberalization of the Indian economy, the company was struggling to survive. It was barely profitable. It was trying to cope with the new realities of the external environment. It was weak on financial reserves. It was burdened with excess manpower, and was saddled with old equipment. It took five years, until 1995, to get the company on an even keel. This entailed renewing its plant, changing the mindset of its people, and creating a right competence mix in its manpower. By 1995, this resulted in the company having a healthy

balance sheet and reasonable cash reserves, streamlined systems and processes, and reasonable immunity to adverse changes in the environment. With this progress, the company had **earned the right to grow** by 1995.

- **Phase-II, Developing a Shared Vision to Grow:**
  In the next phase spanning five years (until 2000), the company **developed a shared vision to grow**. It did this through a process of extensive dialog across the organization. Given that by this time, the company had the financial resources and the right assets in place, developing a shared-vision on 'what next' became critical. The company had to abandon the earlier culture of complacency and incremental growth aspiration and replace it with a 'can-do' attitude, and motivate its workforce to dream big and aspire for radical growth. The company did this by benchmarking against world-class standards on select parameters. This resulted in considerable compression of its operating costs, thereby making it competitive in the global marketplace. This resulted in the company being judged among the top three most cost effective steel producers in the world, by the US-based World Steel Dynamics, a distinction the company continues to achieve from 2001 onwards. Its score for the last three years on the equivalent of the Malcolm Baldrige Business Excellence assessment has been in excess of 650, crossing 700 in the most recent year.

- **Phase-III, Implementing the Vision to Grow:**
  Next, the company set about **implementing the vision to grow**. Having articulated a bold vision, and having completed an intense process of co-creating a shared vision, the company still had to deal with several implementation bottlenecks. This phase began in 2001 and continues today. It would be a never-ending journey.

Supplier and Customer Firms must be in Phase-III for CVM to be Successful

Tata Steel would have made little progress on CVM had it attempted to implement it during the first two phases described above (viz., earning the right to grow and developing a shared vision). Having decided to launch the CVM initiative two years ago, the company identified potential CVM partners by assessing those customers, who like it, were positioned in the third stage of 'implementing the vision to grow.' Through a systematic short-listing using various 'filters' for selecting its CVM partners, it zeroed in on fifteen customers with whom it felt there was good

potential to embark on the CVM journey. However the actual implementation was done in a phased manner, taking a few of these customers at a time.

Desire for Co-destiny

CVM could be a supplier-led initiative as Tata Steel has done, or customer-led initiative as some automobile manufacturers did with their key joint-venture suppliers when they set up new manufacturing bases in India. Tata Steel has found that the willingness of the two companies to enter into a CVM relationship is critical to its success. It starts from a desire for co-destiny between the two firms. This desire fosters willingness by both to pay the price of going ahead with CVM, in terms of deploying their best human resources for the process, willingness to share data, make necessary investments and so on. It must be explicitly understood by both firms that CVM cannot be a monogamous relationship however. Any attempt of either to curb the degrees of operational freedom of the other, such as for example a customer forcing the supplier not to enter into a similar relationship with its competitor, is bound to fail. Likewise, the supplier cannot insist that the customer should not procure the product or service from its competitor. Instead, the transition ideally to single sourcing must happen organically, by the customer recognizing that it can derive maximum value from dealing with the supplier firm with whom it has a CVM relationship.

The essential criteria that the supplier firm and customer firm must satisfy before contemplating to enter into a CVM relationship thus rests on four dimensions as summarized in Figure-I: The four dimensions are not mutually exclusive, but instead reinforce each other as indicated by the circular arrows.

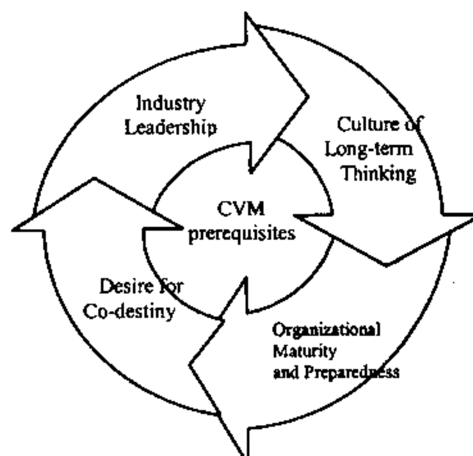

Figure-I: Prerequisites of Supplier and Customer Firms to Embark on CVM

5.0 Conceptual Underpinnings of CVM

As is the case with any supplier, Tata Steel has an increasing price aspiration over time. However, a countervailing pressure arises from the forces that the customer is subject to, wherein the end consumer's aspiration of price over time is a continually falling price curve. This relentless price pressure is eventually transmitted upstream to the business customers of Tata Steel and finally to Tata Steel. The two conflicting positions are illustrated in Figure-II. The only way to reconcile these conflicting positions, while both firms gain through an integrative relationship, is for both firms to unearth new value, which is the focus of CVM. Indeed, these contradictory positions explain why CVM has become so important for supplier firms operating in business markets. The objective of CVM is consequently to maximize value creation. It is only when this happens that the question of sharing value arises. It is in this spirit that Tata Steel's CVM customers constantly ask that it guarantee that the combination of customer and Tata Steel would be more competitive in the marketplace than the other options for purchasing steel that the customer firm may have. This may arise out of a lower invoice price or from increased value due to the CVM efforts, or a combination of both.

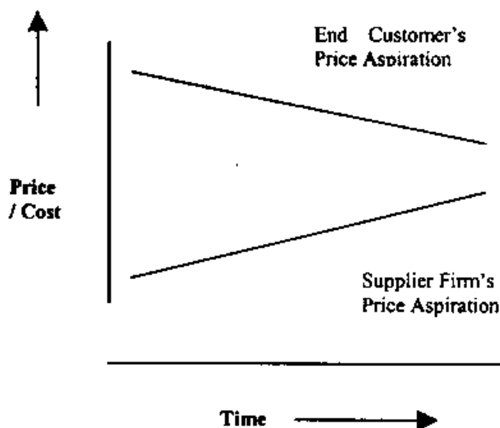

Figure-II: The Conflicting Forces Confronting Supplier and Customer Firms in Business Markets

Sustenance of the CVM relationship pivots around the two firms working together to make both firms stronger in their respective markets. Through periodic meetings using a data-driven approach, the two firms must reassure themselves that through the CVM partnering, both have strengthened their positions in their respective industries.

5.1 An Example of a Value-creating Element in the Context of Tata Steel

The customer firm may agree to pay Tata Steel a premium on the price of steel compared to what it will pay to Tata Steel's competition, since for example, it recognizes the inherent additional value embedded in lower inventory carrying costs as a result of its CVM relationship with Tata Steel. This provides a handle for the customer firm's manager to justify the higher price to her firm's management. Tata Steel, while incurring additional costs to carry the customer's inventory, seeks to make its profits through expansion of customer's share of wallet. Since the supplier firm has finite capacity, it would rather deploy this capacity to service CVM accounts to the extent possible. However, as can be expected, the onus of demonstrating value predominantly rests with the supplier firm.

6.0 CVM Implementation Aspects

Recognizing that CVM implementation process requires intense focus and high energy, the top management of Tata Steel constituted a multi-disciplinary taskforce with handpicked managers from across the organization. A senior manager with credibility in the organization and experience in Marketing and Sales headed the taskforce. The taskforce additionally included a tracking group of analysts for monitoring the progress of various initiatives. The taskforce had a mandate to work with different functions in the company, including Marketing and Sales, Operations, Logistics, Commercial, etc., to develop collaborative rather than adversarial relationships with select customers. The task force brought in analytical rigor, processes and intense focus for implementing the company's relationship migration strategy with select customers. There were clear deliverables for the group and it reported directly to the Managing Director / Deputy Managing Director of the company. The CVM implementation is rolled out over twelve weeks of intense activity, as detailed in the following.

6.1 Internal Preparation Prior to the Formal Launch

During the 12 weeks when the CVM process is launched with a selected customer, a handpicked team works on the program. The team consists of the unit leader, a facilitator from the CVM group and a set of designated key mangers from relevant functions at Tata Steel. To ensure ownership of the whole process, the Customer Account Manager (CAM) from Tata Steel, i.e., the sales manager who handles the customer account, is always chosen as the unit leader.

6.2 Getting the Buy-in from the Customer

Through the customer firm's purchase manager, who was perhaps the only point of contact for the company until then, the team gains access to a key top manager in the customer firm, to obtain the customer firm's cooperation. Such a top-level manager designates a suitable senior operations manager with considerable credibility to be the champion for the CVM initiative in the customer firm. This helps to secure buy-in from the customer firm's managers for the CVM effort.

6.3 Starting the CVM

In a formal kick-off meeting, Tata Steel's CVM team shares the history of the relationship with the customer, its enduring nature as well as importance of the continued relationship. A joint working team is formed from both the firms to work together on the CVM initiative. The constitution and composition of these two teams is vital for the success of CVM.

6.4 Understanding the Complete Value Chain

Tata Steel's CVM team for the customer firm minutely studies the deployment of steel in the customer organization, how it is received and stored, where it gets rejected, etc. This working of the team is initially guided by the CVM facilitator (who is also a member of the task force), who brings in the methodology of CVM for radical performance improvement and forces rigor in the thinking processes. She also brings an outsider's perspective, enabling many issues to be raised, that may normally be taken for granted.

During this stage, the team learns about usage of steel by the customer firm. The CVM team identifies various problems being faced by the customer with Tata Steel's supplies. These include various technical as well commercial issues such as those relating to transportation, packing, order progress reporting, complaints handling, furnishing samples and test certificates, billing, etc. The team also learns of problems relating to various 'hygiene' factors such as: too many invoices that need to be reconciled each month, invoices not accompanying the material, delivered material having unacceptable level of dust (that has been gathered during transportation), etc.

When the CVM team dialogues with the customer firm's manufacturing personnel across various levels, they find many areas relating to operations that can be readily improved, with little or no investment. For instance, the team might find that on receipt of Tata Steel's material, the customer trims it to meet exact size specifications. This leads to waste of time, effort, cost as well as wastage of steel due to edge losses. Jointly finding a solution to this issue may result in additional benefits

for the customer firm such as reduction of the problem of handling, storing and disposing scrap. Sometimes investigations may also suggest need for developing steel of new specifications.

The end result of the first three weeks of the CVM 'wave' in the customer company is thorough understanding relating to the customer's usage of steel, especially relating to supply from Tata Steel. The team also sets targets for itself across key quantitative and qualitative parameters (Key Performance Indicators, KPI's), which would enhance Tata Steel's competitive advantage with the customer. Most importantly, this phase helps to build trust between the company and the customer firm.

Tata Steel has developed processes during these crucial first three weeks of the CVM wave, to define the potential of CVM with the customer firm and also to build relationships across functions between both firms.

6.5 Generating ideas across the complete value chain

This is followed by one week of hectic activity where improvement ideas are generated through a whole day of brainstorming workshop at the customer firm's premises. Cross-functional teams from both customer's company and Tata Steel are involved in this. Typically 150 to 200 ideas emerge, often with considerable overlaps. These ideas are documented and 'synthesized' into about 15 'mother ideas'. Tata Steel has found that doing an internal workshop including role-play among its own managers before doing the brainstorming with managers from the customer firm helps to anticipate and mastermind an effective meeting with the customer firm. Given the traditional 'arms length' relationships that historically prevailed, these are very useful steps in the process. The synthesis of about 15 mother ideas from a larger pool of over 200 that are typically generated in the brainstorming session is done on-line, helping build credibility.

6.6 Evaluating the ideas

During the next 2 weeks, each generated idea is evaluated for its impact and feasibility, by the joint teams from both Tata Steel and the customer firm. These are classified into three broad categories:

- **Hygiene ideas:** These ideas seek to remove the existing irritants in conducting business with the customer and are taken up for rapid implementation. They do not entail significant expenditure for their implementation. However their rapid implementation enables Tata Steel to visibly demonstrate to the customer the importance of the CVM process.

Implementing the hygiene ideas also helps to establish credibility with the customer. Ideas such as sending test certificates through email, consolidated invoices, order status reports on weekly basis, etc., would be classified as hygiene ideas.

- **Operational Improvement ideas:** These ideas would typically be incremental improvement ideas, requiring 3-9 months for implementation. They require relatively minor investments. Yet they yield substantial value to the customer and / or Tata Steel. Examples include finding ways to reduce scrap generation by supplying exact widths or lengths of steel, better ways of handling scrap, packaging solutions and transportation / logistics modifications.

- **Joint study ideas:** These ideas involve radical improvements through product or process innovation. They create long-term lock-in between the supplier and customer firms. Since the implementation of these ideas is over 9 to 12 months or more, it necessitates joint working with the customer. Examples include IT integration for seamless information sharing, developing new products or new grades of steel, etc.

6.7 Implementation Planning & Sign-off

In the next step spanning about two weeks, the CVM team discusses with the customer about feasible ideas. This list of feasible ideas is arrived at based upon idea evaluation and prioritization. The monetary impact of each feasible idea is also assessed. This step results in identification of 10 to 12 significant ideas that are most promising to take forward. An implementation plan for each idea is then developed, working closely with idea owners. The start and end dates for implementation of each of the ideas is finalized. The idea owners are either the customer firm's or Tata Steel's managers, who will carry the idea forward. These idea owners are intimately involved in the planning process for implementing the ideas. There is a formal sign-off by appropriate customer and supplier managers, who will be responsible for implementing their respective ideas over the next several months. Tata Steel has found that in this phase, the guiding philosophy is to demonstrate early results, i.e., to 'Win Small, Win Early and Win Often' (Hamel, 2002).

6.8 Tracking & Review

Chosen managers from both the organizations take these finalized ideas for implementation over agreed timelines. This phase is characterized by joint sign-offs and mutual accountability. The tracking and review group, which is part of the CVM task force, takes the ownership of monitoring

the implementation of the selected ideas. The format for management reporting from the CAM is formalized. These reports are sent on a monthly basis to all stakeholders. A quarterly review process at the customer firm is conducted in the presence of cross-functional team members drawn from senior management of both the companies. The inter-functional Customer Sales Team (CST) from Tata Steel, that is constituted for the CVM implementation with the customer firm, based on the specific intricacies of the customer firm and its requirements, is a vehicle for institutionalizing the whole process.

During the twelve-week rollout of CVM, there is a monthly review by top management of both companies, to ensure that the seriousness of the whole process is sustained. This has been a major contributor to the success of CVM at Tata Steel.

7.0 Mapping the Portfolio of Value Creating Ideas and Sharing the Value Created

We now discuss a framework for classifying the ideas and also present an approach for sharing value created, that Tata Steel found to be useful.

7.1 Classification of Value-bearing Ideas

Tata Steel has found that all its value creation ideas in CVM fall into one of nine cells shown in Figure-III. The nomenclature adopted in Figure-III refers to the distinct permutations that arise from W (Win), I (Indifferent) and L (Lose), respectively from the supplier and customer perspectives. Each pair represents the W / I / L situation for Tata Steel first, followed by the W / I / L situation for the customer firm, resulting in the nine pairs that populate the above 'Idea Portfolio Map'.

Customer ↑	Lose	Indifferent	Win
Win	L-W	I-W	W-W
Indifferent	L-I (NO GO)	I-I (NO GO)	W-I
Lose	L-L (NO GO)	I-L (NO GO)	W-L

Tata Steel

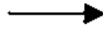

Figure-III: Mapping the Idea Portfolio in CVM Implementation Based on Value Creation for Customer and Supplier

In the idea portfolio map shown in Figure-III, there are four distinct categories that emerge:

1. The four cells on the lower left of the map, shown as L-L, L-I, I-L and I-I are infeasible and hence shown as 'No Go.' In L-L, both firms lose. In L-I, the supplier firm loses while the customer firm is indifferent. In I-L, the supplier firm is indifferent while the customer firm loses. Finally the I-I cell has ideas where their implementation results in indifference for both firms. The ideas that fall into one of these four cells are consequently uninteresting to one or both firms from a CVM perspective. Market forces may however force implementation of ideas in these cells. Implementation under such duress would be involuntary by both firms, and is hence outside the scope of CVM.

2. Ideas in cells W-L (where the supplier firm wins, i.e., implementing the idea results in increase in value for the supplier firm, and customer firm loses by implementing the idea, i.e., implementing the idea results in decrease in value for the customer firm), and L-W (its reverse) are still feasible to take forward for implementation, provided the net value created from implementing the idea is positive. However if the net value created is negative, these ideas would again be classified as 'No Go.'

3. Ideas in cells W-I (where the supplier firm wins and the customer firm is indifferent, i.e., does not either gain or lose value) and I-W (its reverse) are feasible to take forward.

4. Ideas in the W-W cell are enthusiastically taken up for implementation, since they result in increased value for both firms.

In the above discussion, another dimension that is important to consider is the significance of the ideas in terms of value addition. If the net value creation is small or negligible, the two firms may decide to postpone or shelve the implementation. The same may also happen in the W-L and L-W cells, where if analysis reveals that one firm will lose considerable value while the other may gain significantly, the two firms may jointly decide to shelve or postpone implementation until a 'counter-balancing' idea is generated. There could also be several ideas where value quantification may not be easy. In such a case, once again the firms may decide to postpone implementation until

quantification can take place. Alternately they may decide to go ahead in 'good faith'. There is an implicit 'passbook' concept (as in a bank) that both firms keep to track of the respective 'gives and gets' (Anderson and Narus, 2004). The transparency and rigor of the CVM methodology ensures that the passbooks that both firms implicitly maintain match reasonably. A real test of the CVM process is if both firms read out of the same passbook!

To illustrate how this classification will work in practice, if as is the case with a W-L idea, the customer's costs increase (i.e., the customer firm's value decreases) as a result of implementing an idea, the customer firm will legitimately ask why it should support this initiative. This is where the power of the CVM is unleashed. The discussion shifts from increase or decrease of value to either firm, and instead switches to net value increase in the value chain, which is essentially the arithmetic sum of the customer firm's and supplier firm's respective value changes that would result from implementing the idea.

In this particular illustration, if the customer firm's costs were to increase by \$ 60,000 (ΔV_c= \$ -60,000) due to implementation of an idea, but due to that action, the supplier firm's costs would go down by \$ 100,000 (ΔV_s= \$ +100,000), then in the overall context, the value chain would gain \$ 40,000 ($\Delta V_s+\Delta V_c$=\$ +40,000) over the stipulated time period. Recognizing that in this situation, it is still right to implement the idea is the first step towards value sharing. The discussion can then shift to how to share the \$ 40,000 of net additional value. There is a band of \$ 160,000, where the customer has to incur an additional cost of \$ 60,000 and the supplier firm is likely to gain a value of \$ 100,000 by implementing the idea. If it were the case of implementing a one-off idea, the \$ 60,000 of cost incurred by the customer must legitimately be compensated in some way. Ideally in such a situation, the \$ 40,000 of net value would be shared equally, after fully compensating the customer's additional costs of \$ 60,000. However in the real world of commerce, this seldom happens and the actual sharing will be based on integrative negotiation by both firms. CVM however is not about one idea but generating a whole plethora of ideas for plugging value drains and/or for identifying new avenues for creating value, and hence the dynamics of value sharing is considerably different that what has been discussed above. It is to this aspect that we now turn our attention.

7.2 Value Sharing Principles

In CVM, the effort is to generate and implement many ideas, which would typically fall into one of following the five cells in which ideas can be implemented (Figure-III). These are: W-L, W-I, L-W, I-W or W-W. Tata Steel has found it useful to apply the following heuristics in value sharing:

1. Value created / lost by the supplier / customer firms through implementing W-L and L-W ideas are retained / borne by the respective firms. The logic is that there would be other ideas to offset the loss that a firm incurs in implementing a particular idea. So long as the net value generation is positive and significant, the implementation goes forward. This approach also generates positive pressure on both firms to scout for other ideas to offset any losses that either firm may incur due to implementing a particular idea. The overall expectation is that there would be enough ideas created over a period of time that roughly ensure equity for both firms. Tata Steel has found that this approach calls for a great deal of maturity on the part of both firms. This underscores the importance of appropriate choice of the CVM customer.

2. The W-I and I-W ideas are really the easiest to deal with since in a CVM relationship, so long as one firm wins through implementing an idea and there is no adverse impact on the other firm (i.e., the other firm is indifferent since it neither wins nor loses additional value), there would be no concern by the latter in letting the firm that gains additional value to appropriate all of it. As in the case of W-L and L-W ideas, any resulting inequity in the CVM relationship generates positive pressure on both firms to look for more ideas to bring back a semblance of balance into the relationship.

3. The W-W ideas are where both firms end up gaining additional value through the implementation of the idea. For such ideas, Tata Steel has found that robust value sharing methodologies are very useful. Transparency and articulation is the key, and the resulting value sharing in the W-W cell is through integrative negotiations.

Lessons from Tata Steel's CVM Experience

In the following we describe the key lessons from the company's CVM implementation.

Implementation of Value-bearing Ideas is the Key to Success

Value is created through phased implementation of ideas that emanate from a single-point agenda of finding ways to create value in the value chain. In the first round, the simpler of the ideas that

are generated are quickly implemented to create the excitement and get all stakeholders to buy into the process. These are typically the 'low hanging fruit.' Subsequently, the more difficult value-bearing ideas are generated and taken up for implementation. The process then gets into a virtuous cycle, whereby the more success that is experienced, the more success all the people involved from the supplier and customer firms seek.

At the heart of the success of CVM is aggressive implementation of ideas. In the absence of such finesse in execution, cynicism can quickly set into the minds of both supplier and customer firm's top management as well as operations-level personnel, and support can be quickly withdrawn. Tata Steel's CVM process hinges on supportive and enabling top management review by both supplier and customer firms. This is vital for ensuring necessary focus, and support for aggressive implementation of ideas. Rigorous tracking of implementation and of value delivered are also vital for the program's success.

Building Trust is the Starting Point for Creating and Sharing Value

The starting point for creating an atmosphere where the value created can be equitably shared is Trust. To do this, the supplier firm must first have the perspicacity and foresight as well as make the necessary investments to be able to map the entire value chain involving the supplier firm and the targeted customer firm. Typically there are no guaranteed returns for such investment that the supplier firm makes upfront, before rolling out the CVM process with a customer. The investment in the CVM taskforce by Tata Steel illustrates this commitment by the top management. As a step forwards towards building trust, the supplier must reassure and demonstrate to the customer that the current supply conditions and business margins that the customer was getting prior to the CVM will be fully protected even after the implementation of CVM. This would go a long way in assuaging any feeling of insecurity in the customer's mind, and help lower customer's barriers to take the initiative forward.

The key is to mutually understand how additional value can be created and have clear principles on sharing this additional value. The starting point for both firms in building trust during the process of implementing CVM is to recognize that even in the worst-case situation, if one of them garners all the incremental value, the other is still better off vis-à-vis their respective starting position, as at a minimum, there will be increase in volumes of business. The onus of educating the customer firm on these aspects is usually on the supplier. It is only after addressing these trust-building measures that the right atmosphere for discussions on value sharing can take place.

Jointly Architecting the Value Chain through Transparency is also a Way of Sharing Value

The CVM journey with a customer is sustainable only if a rational way for sharing the incremental value created can be found. Even in the situation where one party garners all the value, it may still be acceptable to the other firm if it can have the right to participate in the decision-making process of the former and thereby have a say in determining the manner in which the incremental returns that accrue are deployed. Jointly the two firms may decide that irrespective of who garners the incremental value, this would be directed towards improving processes, expanding or de-bottlenecking certain facilities, or giving lower prices to the end consumer. If the maturity of discussions can be elevated to this level, true progress in the CVM implementation process would have been made. What this means is that the customer and supplier jointly agree on the quantum of incremental value created, and together they decide what to do with that value. Both firms agree that the fundamental reason for creating the incremental value is to improve the competitiveness of their value chain.

Analytical Rigor and Looking Beyond the Obvious are Essential to Determine Value

While determining value that is inherent in any idea, it is essential to do the evaluation from a holistic perspective, by comprehensively capturing all value elements (covering both costs and benefits). Although an idea may superficially appear to increase customer costs, it may also have several not-so-obvious benefits, which can only be unearthed by delving deeper, based on strong understanding of the customer's domain. It may for example result in increasing availability or uptime of the customer's plant, or deliver some less tangible benefits such as reduction in workload, reduction in employee headcount, or simplification of procedures.

Examples of Value Creation and Value Sharing

In the following, we present a few typical examples to illustrate the above principles relating to value-creation and value sharing. Although the context relates to steel, the principles are more widely applicable to other domains. IN Appendix-I, we present a detailed example of value creation and value sharing.

Helping a Customer Look Beyond the Obvious to Recognize Hidden Value

The example of supply of wider rolls to a customer from the automobile industry is illustrative. Based on the study of the customer's applications, Tata Steel suggested using a steel coil of larger width (1300 mm) in place of a 900 mm wide coil that was used historically by the customer. From the supplier firm's perspective, it was a clear gain since the mill throughput in tonnage would

increase due to the wider coil being produced. While agreeing to switch to a wider coil, the customer firm's initial response to this idea was lukewarm, since no immediate benefits to the customer firm were perceptible. The customer firm was unable to see any value accruing to it from this change. Additionally, the customer firm had to invest additionally for handling a heavier coil, since the wider coil resulted in moving from an 18-ton coil (when the width was 900 mm) to a 22-ton coil for 1300 mm width.

Upon careful study of the customer's application, Tata Steel found that there was a long chain of cause-effect relationships that emanated from this change. The wider coil resulted in higher throughput of Tata Steel's mill, which enabled the company to supply the material faster, thus increasing compliance in order filling (i.e., percentage of orders filled on time). The customer firm accordingly would obtain higher reliability of supplies, enabling it to reduce its inventory, a benefit that accrues fully to the customer firm's account.

A not-so-apparent benefit is that a wider coil leads to better yield in the customer firm's operations. The yield loss of 2% came down to 0.8% in field tests at the customer site. The customer's manufacturing line saw a drop in set up time, since in the past, the set-up had to be done after every 18 tons of steel usage when the coil was exhausted, and a new coil had to be positioned in its place. With the wider 22-ton coil, the set-up could be done after every 22 tons of steel usage.

Finally, Tata Steel also observed increased productivity of the shearing equipment used to cut the coil into pieces of 900 mm by 1300 mm. The customer required pieces of 900 x 1300 mm size for further processing. The productivity of the shearing equipment is based on number of cuts per minute. With a 900 mm wide coil, the cutting was done after every 1300 mm length. With the wider 1300 mm coil, the shearing equipment could cut the coil after every 900 mm, thus increasing the utilization of the shearing equipment, which was a costly and critical equipment in the customer's plant. This resulted in more number of pieces generated per hour, for the same coil length and better utilization of a bottleneck equipment.

In this example, the customer's objective had always been to reduce the cost per piece. The various elements such as reduced inventory, reduced set-up time, reduced yield loss and increased cutting efficiency, add up to significantly more benefit for the customer than the benefit that Tata Steel obtained from throughput increase in its operations. However these customer benefits were not

very obvious, resulting initially in the customer not recognizing them. Once these benefits were explained to the customer firm, it became obvious to the customer that any additional investment to augment the customer's coil handling system had a very rapid payback. In this example, it was Tata Steel's responsibility to educate the customer firm about the value delivered. This articulation was possible only because Tata Steel's CVM team developed deep domain knowledge about the customer firm's operations.

Enabling a Furniture Manufacturer to Succeed

A customer firm of Tata Steel that produced steel furniture for furnishing large offices, quoted for a rush order. If this order could be executed in the stipulated time of six weeks, it would be a very profitable order for the customer firm. The order also carried heavy penalties for delay, since the furniture manufacturer's customer firm had to pay large monthly rentals for the building. To enable the furniture manufacturer to complete the contract within the stipulated time necessitated Tata Steel to make the supplies in 2 weeks from the date of order. Firstly this required rationalizing the SKU's (Stock Keeping Units). Secondly, Tata Steel had to carry inventory of eight coils, specifically earmarked for this customer, to meet its requirements of such rush orders. If for some reason the customer was unable to use this inventory for the rush orders, the two firms agreed that the customer firm would buy the coils at the end of the month for normal usage. For the rush orders, the customer was willing to pay a premium price, which adequately compensated Tata Steel's costs for servicing these orders.

This caused significantly higher customer satisfaction, and resulted in the customer becoming more willing to buy all its steel requirements from Tata Steel. Tata Steel used the rush-order service as a 'foot in the door' (Narayandas, 2002) with the customer firm through which it was able to get orders for supplying the customer's other requirements of steel. The customer recognized that although the same steel was being supplied for rush orders and normal orders, since the service delivery conditions were more stringent for the rush orders, it was appropriate to pay more for the rush orders. The two companies may still negotiate the exact premium to be paid. However, there is no disagreement with regard to the principle of paying a premium, since it has resulted in the customer firm winning in its marketplace, giving it the ability to execute the more profitable rush orders with more certainty. This also results in improvement in the customer firm's cash flows, since the compliance of supplies to its customers was better. In this manner, Tata Steel enabled the furniture manufacturer to be more competitive in its markets. Another important benefit for Tata Steel is that it now deals with a customer who is stronger and more competitive in

its marketplace. This enhancement of value chain competitiveness was a key objective of CVM to begin with.

Producing Non-standard Products has its Pay-offs for Tata Steel

Prior to the commissioning of the new Hot Strip Mill at Tata Steel, thickness variation of finished steel used to be + or - 0.3 mm. When the customer ordered for steel with thickness of 5 mm, the customer's design engineer had to factor in her designs that in the worst case, the thickness could be as low as 4.7 mm. With the newer plant in which Tata Steel invested as part of its modernization program however, the tolerance on thickness is + or – 0.08 mm, resulting in a worst-case thickness of 4.92 mm, if a 5 mm thick steel coil is ordered.

In most situations, designs once finalized are seldom revisited, so that the ordered steel continues to be of 5 mm thickness, implying that there is inherent over-design of 0.22 mm (4.92 mm – 4.7 mm). Through CVM, the supplier and customer firms discussed this issue and mutually agreed to change the specification of the thickness of the supplied steel to 4.8 mm, which would still result in a worst-case thickness of 4.72 mm. The straight reduction in material ordered is 4% due to reduction in thickness by 0.2 mm, without resulting in any extra cost to the supplier. Translated into financial terms, this was a significant savings for the customer firm. For this change, Tata Steel did not charge anything extra to its customer.

In this example where Tata Steel suggested using 4.8 mm thick steel in place of 5 mm thickness, the price per ton of steel was not changed. Yet, the number of tons used has dropped, resulting in the component manufactured by the customer becoming cheaper. This enabled the end consumer to get lower product price. However, in the next round of annual supply negotiations, Tata Steel sought and obtained a premium of 5% on the price, citing that the thickness of 4.8 mm was non-standard, and hence required a special run. The customer gladly paid this premium since the value appropriated by the customer due to this change was considerably more.

The company then implemented this thickness rationalization with other SKUs that it supplied to the customer. Likewise, rationalization in lengths was possible since cutting line tolerances reduced from + or – 3 mm in the old line to + or – 0.5 mm in the new line. Thus the length specified by the customer could be reduced by 2.5 mm, resulting in significant cumulative value accrual to the customer.

In both thickness and length rationalization examples however, the result was lesser tonnage of material ordered by the customer on Tata Steel. The resulting savings for the customer was readily calculated. However implementing CVM in such a situation where the solution helps the customer, while resulting in a 'loss' to the supplier (in this example through reduction in quantity ordered) requires maturity on the part of the supplier organization. In this case, Tata Steel's product manager ended up selling less tonnage to the customer, resulting in lower revenue from the customer, at least in the short-term. This however created a competitive edge for the customer firm, making it more competitive in its markets by increasing the value-chain competitiveness. This resulted in increase of customer firm's market share and consequently volumes.

Being a non-standard thickness resulted in customer lock-in over the short-term. It resulted in increasing customer's order on Tata Steel after some time lag, as the customer firm became more competitive in its marketplace. At this stage, the relationship entered into a virtuous spiral. Other manufacturers did not immediately have the capability to supply this non-standard size, due to the relatively poor tolerances of their manufacturing processes, locking them out in the short-term. However eventually the competitors would also upgrade their processes and facilities, and the lower thickness would become a market equalizer. For this reason, Tata Steel has to continue to seek value creating ideas relentlessly, ensuring that complacency does not creep in. It must constantly find newer avenues for value creation, and ask (Levitt, 1983): 'What have we not done lately?'

Value Creation through New Product Design

There have been several instances of Tata Steel developing newer products consequent to the CVM initiative with a customer firm. This has generally happened as a result of more intense engagement of key cross-functional managers of both customer and supplier firms, leading to better understanding and articulation of each other's needs and capabilities. The company was consequently able to facilitate migration of customer firm's products into more sophisticated ones. The steel that Tata Steel developed that enabled a customer firm to manufacture fuel tanks for automobiles is illustrative. In the past, the customer firm imported the high-quality steel needed for this application. However through a process of joint working, Tata Steel developed and manufactured this product, giving considerable operational flexibility to the automobile manufacturer.

Key Lessons in Value Creation and Value Sharing from Tata Steel's CVM Experience

Having implemented CVM with fifteen customers, the methodology for value sharing in the company has progressively evolved, that is centered around two key principles:

- Discriminate between those elements of value creation that are amenable to sharing (i.e., sharable elements) and those must be individually appropriated by the respective companies.

- For shareable elements, a rational basis of value sharing has to be established and communicated upfront.

Situations where the Supplier and Customer Firms Retain Respective Values Created

In Figure-III above, Tata Steel has found that in the W-L and L-W cells, the two firms keep their respective share of value. In fact, in these two cells, one of the firms gains value while the other loses value. However Tata Steel has found that it is not appropriate to look at ideas in these cells on a case-by-case basis. Instead the two firms recognize that on a particular idea implementation, one firm may win while the other loses. However in the totality of all the ideas, both will gain. This puts a positive pressure on both firms to generate more ideas to create the equity in terms of gains for both firms. This however requires significant maturity on the part of both firms. A similar reasoning applies to the W-I and I-W cells of Figure-III.

Situations that are Amenable to Value Sharing

Sharing of value requires a clear methodology that is well articulated between the two firms, for those ideas that fall into the W-W cell of Figure-III above. It is in the case of these ideas that there is need for a well-understood and transparent methodology for assessing the value created, and sharing this value. Sharing value created in such a situation requires articulation and integrative negotiation as opposed to distributive negotiation (Fisher, Ury and Patton, 1991) between the supplier and customer, focusing on the gain of the value chain as a whole. In such situations, a clear cost-benefit analysis from a systemic value chain perspective, rather than an individual firm perspective, is the starting point for generating the information required for transparent supplier-customer integrative negotiations in an atmosphere of trust. At the culmination of the value sharing, both firms would have gained from an overall perspective, compared to their starting positions. The supplier firm would have gained either through a premium price or a larger share of

customer wallet, or both. The customer firm gains through plugging value drains or implementing new sources of value creation or both.

However for the supplier to sustain this position requires continuing to refresh the relationship through generating more innovative ideas and implementing them. This can happen only when the supplier becomes a domain expert in the customer's industry. This calls for implementing effective knowledge management (KM) systems, which Tata Steel has succeeded in. Its KM system is recognized as being among the best in the steel industry worldwide. The supplier firm has certain advantages that the customer firm does not, having had an opportunity to closely study many players in the customer's industry. If a strong atmosphere of trust can be fostered, the supplier can question the customer's processes from an outsider's perspective, and vice-versa, with the objective of making the entire value chain more competitive.

Credibility is the Key for Sustaining CVM

This intense degree of engagement between the supplier and customer firms requires exercise of considerable caution by both. Tata Steel engages with competitors from the same industry in separate CVM relationships. This is where the credibility of both firms in their various 'exchange episodes' (Anderson and Narus, 2004) with each other becomes important. Both firms must strive to create an atmosphere of transparency for credibility to flourish.

As part of the credibility building process, Tata Steel has found that areas that are vital to its success should be identified, articulated upfront with the customer and wherever applicable (such as its relationships with the customer firm's competitors), kept 'out of bounds' from the CVM discussion. The customer should also do so likewise.

Tata Steel has found that most of the aspects in a CVM supplier-customer relationship are so specific to a particular engagement that in reality they are not transferable to other relationships. Hence, the fear that the customer may have about proprietary information shared with the supplier firm in a CVM relationship leaking out to competition may be exaggerated. Despite this, Tata Steel has found that sometimes a CVM customer may 'fish' for vital information relating to a competitor firm with whom Tata Steel may have completed the CVM process. Any divulging of such competitor information will spell disaster for the supplier firm's credibility. To use the analogy of marriages and supplier-customer relationships described by Levitt (1983), the challenge for both firms is to preserve the 'integrity of monogamy' while practicing polygamy!

The Challenge of Continuing to Find Avenues for Value Creation

An issue that Tata Steel has been grappling with is possible saturation of idea generation and implementation resulting in consequent slow-down in the delivery of incremental value to its CVM customers. Its CVM initiative is only two years old, and hence it does not have experience of implementing CVM with a customer over the long haul. The company expects that after three to five years of CVM relationship with a customer, the supplier-customer relationship will no longer stand on a razor's edge, vulnerable to being 'bumped off' by competition, but instead will get firmly cemented. Tata Steel expects that once the relationship gets on to the long-term partnership mode, the two firms can then together jointly discuss diversification plans, geographic expansion plans, etc.

Duration of Value Sharing

Another important aspect of sharing value is determining the duration of sharing the value created through CVM. Value gained from ideas that are implemented is perpetual to the recipient firm. For the supplier to continue the CVM relationship over the long-term, it is important that the supplier seeks ways of continually creating new sources of value and thereby refreshing the relationship. The CVM implementation gives an 'early bird advantage' to the supplier to deepen the relationship with the customer. This advantage may last for several months or at best for a few years. However any sign of complacency will result in reverting the relationship to a transactional selling mode (Rackham and DeVincentis, 1999), as the ideas implemented through CVM get commoditized, since these would be emulated by competition. Tata Steel has found that in reality, it may gain 6 to 12 months advantage over competition, by implementing various ideas during one 'wave' of CVM. While it is important to communicate the value created to the customer, the supplier must also constantly be concerned with 'what next?' This is a key challenge for the supplier firm in CVM implementation.

Some Practical Issues in Value Sharing

In addition to the above, there are several practical issues in value sharing that do not have easy answers. These are briefly discussed in the following.

1. **Sharing of value is affected by how specifically tailored the idea is to the particular value chain in which the supplier and customer participate.**

The more specifically the idea is tailored to the particular value chain; the more is the propensity to intensify the co-destiny. An example of a automobile wheel manufacturer illustrates this point. In the past, Tata Steel was shipping large tonnages of steel coils to the wheel manufacturer located about 1500 miles away, resulting in significant freight costs. The relationship was a 'arms-length' transactional relationship. The CVM process revealed immediately the value drains involved in the entire process. The two firms decided that it was more appropriate to punch the steel coils to obtain blanks at Tata Steel and ship the blanks to the customer. Accordingly, the two firms decided to locate the punching presses at Tata Steel's facility, dropping freight costs by over 75%. In the next step, the width of the coils was changed to optimize the production of blanks, and a more advanced method of punching was used to generate maximum number of blanks with minimum scrap generation. This builds in high switching costs, since a lot of customization of the value chain has been implemented.

2. **The value sharing approach will affect the negotiating behavior of the customer and supplier firms.**

In the case of some of its CVM customers, both firms decided to separate discussion of price and the sharing of value. With some of its customers, Tata Steel has two different components in the contract. The first is a price contract for annual purchases by the customer. The second is a value contract for guaranteed value enhancement (or cost reduction). In such a situation, the customer firm agrees to pay a certain price, while demanding through a 'value contract', that Tata Steel must provide a guaranteed increase in value to the customer firm during the year.

A typical supplier-customer situation will help illustrate how the agenda shifts from price to value in a CVM relationship. Tata Steel may have a customer who procures 50,000 tons of steel per year at $ 500 per metric ton. Tata Steel sees this as an important $ 25 million business. Through CVM, it may find ways of guaranteeing additional value creation of $ 1 million for the customer during the year, through implementing various ideas. Given this possibility for enhanced value delivery, the supplier would not want to discuss price, and instead would be keen on discussing increased value being delivered. In this situation, the customer may instead suggest that the supplier guarantee additional value of $ 1.5 million and not $ 1 million. The discussion on price would recede to the background. Instead, the negotiation switches from price to guaranteed incremental value delivery.

3. **Alternately, the supplier and customer firms may decide to institute a clinical system to monitor value created and value shared.**

   With some of its CVM customers, Tata Steel was able to put in place a system to minutely track value created and value shared. This was possible since the data relating to value was unambiguous. This would be a rational and non-emotional method of value sharing. However Tata Steel has found that such accurate sharing of value would apply only to about 20% of its CVM customers. The challenge here is to track costs and benefits of both supplier and customer firms, through a data-driven approach. When this happens, a logical basis of equally sharing the value becomes easy to implement.

Price Premium or Increased Share of Customer Business?

Relationships are central in CVM. Tata Steel needs to constantly find ways of strengthening these relationships. Since the mantra is business markets is 'Show me the Money!', relationship intensification occurs when the supplier firm can continually measure and communicate value transfer to the customer. While one would expect both customer and supplier firms to track value, it is in the supplier firm's interest to take a lead in articulating it. The tracking system that the company has implemented is akin to the double-entry book keeping followed in banks with their customers. However this is generally used for its own internal assessment to determine progress on the CVM.

Tata Steel has found that with its CVM customers, premium on price is arrived at indirectly and iteratively, rather than seeking a higher price upfront. Moreover, often rather than a higher price, it settles for obtaining a higher share of customer business.

Price discussions in CVM accounts

To begin with, Tata Steel may offer a slight discount over the competitor's price, to attract the customer to enter into the CVM relationship. Thus prima-facie, to begin with, it appears that Tata Steel is not obtaining a premium but instead is selling at a discount to its CVM customer. Once Tata Steel has succeeded in achieving a higher share of customer spend consequent to the CVM initiative with the customer, the competitor's barriers to enter the customer account greatly increase. Since in this situation, the competitor continually loses its share in the customer account,

as Tata Steel's share of customer business increases, the competitor seeks to get into the customer account 'at any cost'. In order to penetrate into the customer account at that stage, the competitor would be willing to provide a discount vis-à-vis Tata Steel's price. However, the customer will be in no hurry to switch, since it perceives significant value from the relationship with Tata Steel, in addition to possibility of incurring high switching costs due to investments made by both firms in the relationship. It is at this stage that the customer firm perceives that the competitor's discount as tantamount to a price premium it is paying to Tata Steel.

Based on its experience with CVM, it has found that CVM does not obliterate need for customer-supplier negotiations. Both firms take respective advantageous negotiating postures in that each articulates to the other how large a 'sacrifice' it is making to the other in the interest of sustaining the relationship.

However, there is a fundamental difference between this 'posturing' that the supplier and customer resort to in a CVM relationship and what occurs in transactional sales. The unsaid rule that both firms in the CVM relationship follow, is that 'We are in this together during good times and bad times alike.' Both firms recognize that they will do business together in a spirit of 'co-destiny.' The threat of customer defection is conspicuous by its absence. Instead, several of Tata Steel's CVM customers have asked that with the two firms working together, Tata Steel should ensure that the customer firm becomes a winner in its industry.

In such a situation, while the customer firm perceives that it is paying a higher price, it would like to be reassured that in its industry, it is indeed getting the best price for the value delivered vis-à-vis what its competitors may be getting from Tata Steel. This is an important aspect of credibility that the supplier firm has to establish. Indeed, any breach of credibility of the relationship could jeopardize the relationship.

Price Premium as an Iterative Process

Additionally, there is an iterative aspect to the supplier firm obtaining price premiums. As a consequence of CVM, the customer and supplier may negotiate their respective shares of the increased value. The customer may suggest that the supplier can legitimately seek a higher price when the supply contracts are finalized the next time around. Once the customer firm is confident that the supplier firm's systems for tracking value delivered are accurate, it is assured that when the circumstances change that warrant drop in prices, the supplier firm will indeed drop the price.

When both the firms subscribe to such a rational framework for discussing the value created, a feeling of mutual trust develops, further reinforcing the CVM relationship. Tata Steel has found that in practice, price revisions stemming from negotiations anchored on value delivered occur on an annual basis.

In the final analysis, value sharing is largely a matter of equitable division of increased value created, in an atmosphere if trust. It cannot be done with an accountant's precision. With many of its CVM customers, Tata Steel may forego price premium and instead focus on growth of the customer account. This is a tactical aspect of CVM implementation.

Transformation at Tata Steel Consequent to CVM

Tata Steel has achieved success on some dimensions through its CVM implementation. The implementation of a relationship migration strategy for select accounts has been a win-win situation for the company as well as for many of its CVM customers. The company has also improved its account profitability in these customer accounts. The whole organization has been significantly energized. This stems from making its people focused on ways of continually adding more value to its customers, thereby challenging them to innovate. In the following we discuss some of the major benefits that the company has got through its CVM initiative with fifteen customers.

Rationalizing the Customer Portfolio and Providing a Unifying Force in the Company

CVM has provided a vehicle for the company to intensify its relationship with some of its important customers who are leaders in their respective industries in India and in some cases, in the world. It has helped the company to focus on fewer customers, with whom it has been able to obtain a significant share of business. It is transforming the company from 'production mindset' to 'customer mindset'. Seeking to bring the customer to the center-stage is providing a unifying vision for the company that everyone can relate to. It has helped to lower the functional and hierarchical boundaries. If this can be sustained, it will make the company's working relatively seamless. In short, it has made the company more market-oriented.

Changing Nature of Dialogue with the Customer

CVM has resulted in setting a non-price agenda in the discussions of the company with its CVM customers. The time horizon is also shifting to long-term rather than on a deal-to-deal basis of doing business. It also provides extensive opportunity to the supplier to continually dialog with

different customer firm's managers, rather than with only the purchase manager once a year, that was the case previously.

Moving from 'Opinion-based' to 'Data-driven' Decision-making

The CVM implementation, along with other improvement initiatives the company has embarked on, is changing the culture of the company. Decisions in the past were often based on perceptions and opinions. CVM has brought significant rigor into the decision-making process, through data and fact-based management. A very important benefit is that it has also created a data platform that both customer and supplier firms agree upon. In the past, agreeing on data to be used for discussions was itself an area for considerable squabbling between the two firms, and also within the company.

Delivering Customer Benefits

A primary driver of CVM is to deliver customer benefits and in the process seek to obtain equitable returns for Tata Steel. The joint working of inter-functional customer and supplier teams has resulted in unearthing value drains, and identifying new avenues for value creation, which the company seeks to articulate in monetary and non-monetary terms. This has resulted in creating an atmosphere for dialog on equitable sharing of value created, moving the discussion from distributive to integrative negotiations.

Bringing in Accountability in Organizational Functioning

While it is understood that a Customer Account Manager (CAM) handling the customer account is the single-point of responsibility for driving the CVM, the process of rigorous review and ownership of improvement ideas by idea owners drives accountability for implementation throughout the organization. This process has helped bring ideas into meticulous and time-bound implementation. Wherever difficulties are encountered, top management facilitates to de-bottleneck, and where required, provides funds and other resources to facilitate implementation of the idea. Based on rigorous review of CVM implementation by the top management of the company, the whole process acquires 'mission-mode' priority in the company.

Increased Responsiveness to Customer Needs

In the pre-CVM period, the CAM would have been the only point of contact with the customer. She would typically have to address all problems that arise, such as those relating to supplies, billing, technical issues, etc. Subsequent to the launch of the CVM process, there has been intense involvement in creating customer value by key people in Tata Steel. The CVM process helps in

obtaining a buy-in from all concerned regarding the primacy of the customer for the company's success. This enables the company to immediately address and resolve problems related to the customer. Appreciation of the customer problems by employees of the company at the back-end (supply chain, production, and planning groups) and changing mindset of all employees in Tata Steel is one of the major benefits of the CVM program. This provides a lot of confidence and credibility to the CAM while engaging with the customer, since the CAM has the assurance that while he is the front-face of the company, the whole organization will rally behind him in providing increasing value to the customers.

The Challenges Ahead

Tata Steel has implemented CVM with 15 companies operating in India. Most of them are leaders in their respective industries in India. Many of them are a part of large multinational companies, with footprints in many countries.

For the CVM journey with a customer to sustain and grow, it has to continue without let-up. Tata Steel, having implemented CVM with fifteen customers during the last two years, is now grappling with whether to further intensify its CVM relationship with these chosen customers or alternately expand the number of CVM customers by bringing more customers onboard. This is the classic dilemma of depth vs. breadth.

Moreover the continual creation and demonstration of value is non-trivial, after the low-hanging fruit have been picked. It requires significant deep knowledge of the customer's domain.

Tata Steel has found that articulating value is relatively straightforward in some of the more obvious situations where value can be readily assessed. However in most situations, the company has found that value articulation is a non-trivial challenge, requiring considerable mastery of the customer's domain. These situations are more challenging from a value articulation perspective, since in addition to the supplier company's mastery of the customer domain, value articulation depends on the customer firm's culture, power equations, willingness of the customer firm to buy into the value framework, etc. It is here that careful choice of customers for implementing CVM becomes very crucial. A wrong choice could result in a lot of wasted effort.

Tata Steel has also not been able to fully identify and track the benefits of various CVM ideas in its own firm, where there are often complex interactions and cause-effect relationships.

The company's exports are largely to commodity markets, and account only for some 15% of its revenues. As the company nearly doubles its capacity from 4 million tons per year to 7.5 million tons per year, this proportion will increase, and the share of exports will increase. It is possible that the experience the company has gained can be transferred to its clients outside India. This may require new learning on the part of the company however. Moreover, geographic distances are likely to hinder the process of cementing strong relationships with long-distance international customers. CVM is a very high-touch engagement where frequent face-to-face engagement of dozens of customer and supplier personnel is vital for success, technologies such as telecom and Internet not withstanding. This problem could perhaps be countered with presence of local offices in the countries where the company has major international customers. These offices will have to be manned by an inter-disciplinary and inter-cultural team of senior managers, for the CVM process with such firms to be effective. This could be one of the next frontiers for the company.

There are also many softer aspects of CVM implementation, which the company has to constantly learn, retain and disseminate within its own team. Some of these are of a general nature, while others are specific to each customer firm.

A larger challenge is to move the locus of CVM interaction across the entire value chain, potentially encompassing the different interfaces all the way to the end customer. This could be a tough area for the company to work on, but perhaps where significant value can be created.

Concluding Remarks

Two years ago, Tata Steel took the first tentative steps in CVM implementation, with a view to find a long-term solution to the problem of commoditization of its products, by seeking to migrate select customers from transaction selling to collaborative selling, and further to strategic selling. The journey it began was vital to its success in the emerging fiercely competitive markets, which is a reality the company faces today.

Since the process of relationship migration is a relatively uncharted path, the company had to go through considerable 'learning while doing'. While significant progress has been made, primarily in changing the mindset of the entire organization, it would be fair to conclude that the journey has essentially only now begun.

From an earlier situation of supplier-customer antagonism that was the predominant reality in the Indian steel industry, through its CVM initiative, the company has been able to communicate to its most important customers that it is a responsive and trust-worthy business partner. It has shown that creating an atmosphere of trust where both supplier and customer firms begin to respect each other, and thus feel comfortable sharing vital information with each other, can result in a win-win situation for both.

Unlike implementing many other initiatives such as quality circles, TQM, ISO, etc., where there is enough expertise on the 'how-to' aspect of the journey, in the case of CVM, the company had to simultaneously discover the path, and actually undertake the journey 'on the fly', much like driving a car and laying the road ahead simultaneously. Given the size of the organization, this has been a significant challenge.

This paper has described various aspects relating to the process of relationship migration for select customers, based on hands-on experience of the company. The company has discovered that the process provides it with unique competitive advantage. However, the company's understanding of the process is still at an evolutionary stage. For instance, how does the company continually refresh the relationship with its CVM customer? Should it go deeper into a few relationships, or expand the number of relationships and thus hedge its bets? Given that steel industry is historically cyclical, what should the company do to fine-tune the CVM process? In an industry-wide downturn, when prices are plummeting, and competition becomes brutal, would customers continue to respect the sanctity of the relationship that the company seeks to so assiduously create? How does the company expand the CVM to potentially encompass the various interfaces across the entire value chain, all the way to the end customer?

What the company has found in its short experience of two years is that the process is sustainable provided there is mutual transparency. It has also found that the CVM process is vital to its future competitiveness and for the continued success of the company.

Rather than perceive the effort till date as the accomplishment of grand success, and of having reached the pinnacle, the company has found that it is more appropriate to look upon the experience as path breaking. The CVM initiative has been a very important effort for the company's marketplace success. Neither in the country nor in the global steel industry were

there signposts and roadmaps to help in the journey that the company undertook. In this sense, the company has defined new rules of doing business in India, that too in an industry that has historically been customer-unfriendly, and where the customer treats the product as a commodity. It has shown that there is a limitless 'value ocean' that needs to be explored with its CVM customers.

The experience underlines the centrality of top management focus to single-mindedly drive the initiative by bringing the customer to the center-stage of the company's agenda, as the single most important ingredient for success.

The organization is moving towards a process-driven company. Metrics to assess the performance of individuals across the organization are also being modified to make them more customer-centric. The company is in the process of transplanting the lessons learnt from CVM to other aspects of its functioning, such as with select suppliers (through the Supplier Value Management, SVM Initiative); with select smaller business customers, by implementing a variant of CVM but through its distributors; and with retail customers through the Retail Value Management (RVM) initiative. All these initiatives are clearly helping the company to craft a competitive ecosystem and value chain competitiveness in its chosen industries. It has become abundantly clear to the company that in today's globalized world, the old mindset of intra- and inter-company boundaries is no longer relevant. The key managers in the company have understood that today companies increasingly swim or sink together, as co-destiny becomes a fundamental requirement for success.

While the broad lessons the company has learnt would be useful to other large companies that seek to embark on a similar journey, other companies seeking to launch a similar initiative cannot directly copy Tata Steel's experience. Each company has to find its own solution to migrate select customers on the relationship spectrum, after unraveling and understanding the particular terrain in which it operates. Success in the journey depends on myriad factors such as nature of industry, product / service characteristics, the maturity of the people and organizations involved, the nature of competition, marketplace realities, country-specific and culture-specific issues and many more. One thing however is clear. For success, the company must abjure complacency. It is easy to see some early success as attainment of nirvana and slacken the effort. In reality the journey only continually accelerates.

Appendix-I

A Detailed Illustration of Value Creation and Value Sharing in Tata Steel's CVM

Brief Background

The automobile manufacturer, who is a CVM customer of Tata Steel has three production units manufacturing station wagons, tractors and jeeps respectively at three separate locations, viz., Location-1, Location-2 and Location-3, about 200 km from each other, in the western part of India. Tata Steel supplies 2350 tons per month (tpm) to this customer, for the manufacture of various components required for these three vehicles. The customer firm gets its components made from various component manufacturers, for which it supplies the steel sourced from steel manufacturers. In the past, Tata Steel was one of many steel suppliers (including several imported sources) to this customer firm. Tata Steel has two plants for manufacturing automobile-grade steel, one located at Jamshedpur, near Kolkata (formerly Calcutta), in the eastern part of India and the other near Mumbai (formerly Bombay) in the Western part of India. A distance of about 1200 miles separates these two plants.

Situation before CVM

On the 26th and 27th of each month, the three automobile production units of the customer firm released plans for component requirements, based on their respective vehicle production forecasts. The component manufacturers would then translate these into requirement of sheet steel by the 30th of the month. However, steel manufacturers typically required a lead-time of at least six weeks to supply the steel, as these were high grades of steel for use in automobiles. Consequently, the customer firm was forced to give its forecast by 15th of the previous month to the steel manufacturers, largely based on guesswork.

The customer firm additionally has a service center that would take the steel coils from the steel manufacturers and cut them into specified sizes for use by the component manufacturers (ancillaries). The relationship between the service center, component manufacturers and the automobile production units (auto assembly units) of the customer firm were characterized by considerable antagonism, 'blaming each other' for slippages in targets and lack of communication.

Tata Steel Initiates CVM with the Customer

Tata Steel wanted to be a supplier of choice for the 'winners' in the rapidly growing automobile industry in the country. The customer firm was fast growing and an important automobile manufacturer in India, with growing market share. Prior to CVM, Tata Steel was one of the many suppliers of steel to this customer. The selling relationship of Tata Steel with this customer was transactional (Rackham and DeVincentis, 1999). With a view to intensify its relationship with this important customer, Tata Steel decided to launch CVM. Expectedly, the response from the customer firm was not enthusiastic. However, based on the mapping of the entire value chain, Tata Steel found that the ordering of steel by this customer firm was very volatile on a month-on-month basis, while vehicle production was relatively smooth and growing steadily. Study of the supply chain with multiple players thus revealed the classic 'beer game syndrome', described by Senge (1990). Perseverance on the part of Tata Steel finally resulted in the customer firm agreeing to participate in the CVM process, albeit reluctantly.

Prior to CVM implementation, the goal of the service center was to minimize the yield losses while cutting the steel coils into sized pieces. The various automobile manufacturing units of the customer firm and the ancillary companies worked in silos. To achieve its goal of 'yield loss minimization', the service center placed orders for supplying over 250 different Stock Keeping Units (SKUs) on Tata Steel. These were supplied in the form of steel coils of varying width and other specifications. Considering that the total monthly consumption was only about 2350 tpm, this meant that the average 'per SKU' consumption was less than ten tons per month. Since the average minimum weight of a steel coil and consequently minimum order size was in the range of 15 to 20 tons, both Tata Steel and the customer firm were forced to operate at very high inventory levels.
The service center kept an inventory of 4000 tons in order that it could cater to a monthly consumption of 2350 tones spread over 250 SKUs. This high level of inventory was not withstanding the fact that the supply points were the two plants of Tata Steel, which were only 1-4 days away by rail / truck from the service center.

Ideas Implemented as a Consequence of CVM

Idea # 1: Reduce the Number of SKU's to Improve Delivery Compliance and Reduce Inventory

After initiating CVM with the customer firm, Tata Steel asked the customer firm about the number of vehicles it planned to produce for the year. The company then supplied the customer firm its

'cutting optimization software' that it had developed earlier for use in its plants. With rigorous analysis and dialog based on data, the mindset of the service center manager was progressively changed from the perspective of 'yield improvement above all else' to agreeing to look at total cost reduction of the value chain as a whole.

In the past, there was a trimming operation at Tata Steel, to meet the exacting size requirements of the customer firm. This was eliminated and all the sizing operations were now moved to the customer firm's service center. This one step greatly reduced cycle time for supply from Tata Steel. After rationalizing the SKUs through thorough analysis and implementing various ideas, the number of SKUs dropped initially to 61, and subsequently after implementing several other ideas, further reduced to the current level of 40 SKUs. As a result of these changes, the service center reduced its inventory by 25% resulting in savings of $ 60,000 per year. The new SKUs were wider. Consequently the service center has less stock-outs since it could size the wider coils that it now stocked to required dimensions. This reduced the need for procuring stocked out coils from other steel companies on an emergency 'rush order' basis, which was the situation in the past. The reduced number of SKUs resulted in productivity gains for Tata Steel valued at $ 22,000 per year. The double trimming was eliminated and resulted in a total systems benefit of $ 34,000 per year (the customer firm lost $22,000 per year of value and Tata Steel gained $ 56,000 per year as a consequence of this change). This is depicted in the Figure-I.

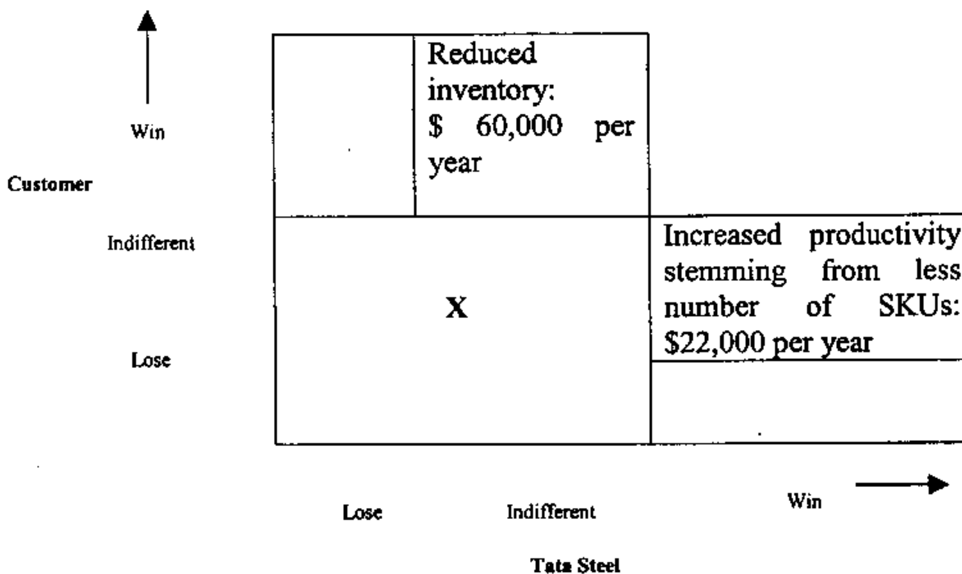

Figure-I: Mapping the Value Creation in CVM Implementation with an Automobile Manufacturer as a Result of Idea #1

Idea # 2: Enhancing coil-width and augmenting coil-handling capacity at the service center

Prior to CVM implementation, coils with a maximum weight of 16 metric tons were handled at the service center. Based on the SKU rationalization and consequent increase in width and weight of the steel coils that required to be handled, the service center was requested to invest $ 550,000 per year (one time investment) for handling the heavier coils. This resulted in its ability to handle coils with a weight of 30 tons each, and width of 1600 mm. Due to this initiative, the customer firm saved $ 45,000 per year due to lower scrap generation and $ 122,000 per year in further reduced inventory. Similarly Tata Steel was able to save $ 220,000 per year in the form of productivity improvements that it could achieve in its plant, due to ability to handle wider coils and hence higher productivity in terms of throughput in tons. Figure-II shows the resulting value creation in the 'idea map.'

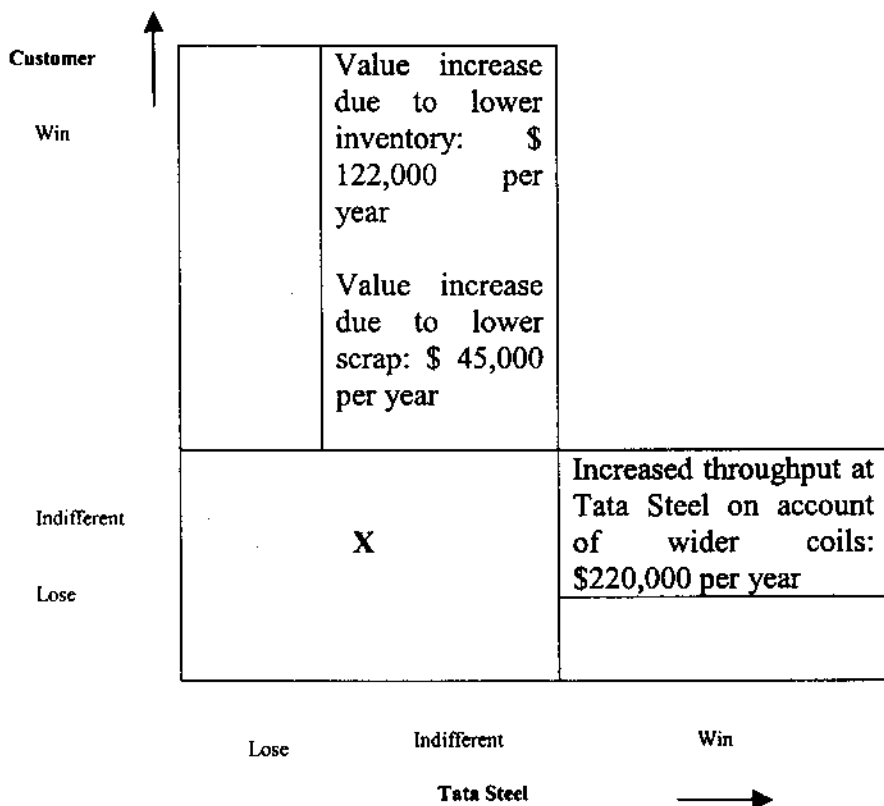

Figure-II: Mapping the Value Creation in CVM Implementation with an Automobile Manufacturer as a Result of Idea #2

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