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Understanding the Process of Transitioning to Customer Value Management

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Executive Summary

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 spiralling 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 streams 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, the authors present the experiences of the India-based Tata Steel in implementing CVM across 25 select customers. This has enabled it to successfully come out of the commodity trap that it found itself some four years ago. 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 efficacy of the value chain of which it is a part. 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. The authors 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.

This 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 the CVM journey of the company. It concludes with several challenges that the company has to grapple with for continued 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. The key learnings can be summarized as follows:

- Success of CVM has to start from the top management of both supplier and customer firms. The focal responsibility cannot be delegated.
- Firms planning to embark on the CVM journey must adapt the CVM process to their own specific situations while general lessons can be drawn from Tata Steel's CVM implementation experience.
- Meaningful roles must be found for all key managers in both supplier and customer firms for success of CVM implementation.
- It is necessary to take stretch targets for the process to be attractive and worth the while for both the firms. At the same time, it is essential to manage the expectations of both firms: CVM is not a panacea or a magic bullet to solve all the problems of both the firms.
- The overall philosophy of both firms must be to seek to expand the 'value pie,' thus coming up with integrative decisions based on aligned data where both the firms 'read off the same page' of data. ♡

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KEY WORDS

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Commoditization Spiral

Value Creation/Sharing

Customer Retention

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 (share of customer wallet) as an important means of achieving this objective. Although academics and business magazine writers 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 — Tata Steel Ltd., India (Tata Steel, for short) — has successfully managed to do so through its now successful programme, 'Customer Value Management', (CVM). Tata Steel has an annual revenue of about US \$4.5 billion, PAT of about US \$800 million, and about 40,000 employees. Four years ago, it sought to exit the commoditization spiral by increasing the 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 supplier and customer firms.

We begin with a brief review of the research on CVM in the context of business markets with a 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 and present insights related to the process of a supplier firm transitioning to CVM 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 a more collaborative supplier-customer partnerships. There is a paucity of research on how a large firm evolves in this manner. This paper seeks to fill this gap. It also presents several hypotheses, based on case re-

search, 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 fulfil 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 fulfil before getting into such a relationship. We discuss the conceptual underpinnings of CVM and its broad philosophy that Tata Steel used in launching its own version of CVM and the key steps in implementing CVM. 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 the 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 the Appendix. 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 and discuss how CVM has transformed the organization. Finally, we present the challenges ahead for the company and areas for further research.

OVERVIEW OF CVM RESEARCH 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 the defecting customers (Anderson and 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 prerequisite for customer retention, is closely linked to building strong relationships between the customer and the 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 terms of 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 achieve 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 analysing 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: the 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, catalyse 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 simultaneously developing 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 of relationships with select customers. Research in this area has been an important focus of the 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 the 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 looking at buyer-seller exchanges as discrete events, it is more appropriate to view them as an ongoing 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 think-

ing about collaborative relationships and then implementing it. 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 is 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 should closely monitor and actively manage customer defection. According to him, 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, it 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 Scheffer (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, one has to be an effective cooperator 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 practising 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 behaviour.

Importance of Making the Supplier Firm's Value Streams Competitive

Increasingly, scholars exhort firms to focus on value creation for 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, programmes, 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, programmes, 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, the supplier firms should put in place effective service recovery systems and they go on to 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 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 the 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 expanded in scope in that the firm has to additionally ensure that the value chains that it chooses to be part of, and 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 today's fast-changing business environment that Jaworski and Kholi (1993) have aptly described as competitor intensity, market turbulence, and technological turbulence make it imperative for the supplier firm to be market-oriented. However, this is no longer a task for just the marketing and sales functions 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 an 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 and 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 the 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 supplier 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 pointed out. Noting that execution is a key differentiator between success and failure of a firm, 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; 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 is important. He 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 through the experience of Tata Steel's CVM journey with 25 customer firms over the last four years.

TATA STEEL: A BRIEF PROFILE

Tata Steel, India's oldest steel manufacturer, is one of the most respected companies in the country. It is a part of about US \$15 billion Tata group and was formed in 1907. The company, with a capacity of 5 million tonnes of finished steel a year (going up to 10 million tonnes per annum by 2008), employs about 40,000 people, and has a turnover of about US \$4.5 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 per cent 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 select customers in the business markets through its home-grown version of the 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 long products (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 per cent of its products are exported. In the domestic business markets, the company has a wide variety of customers including many large Indian and multinational 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 1,500 business market customers spanning both flat and long products. In addition, it 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 tonnes per annum accounting for about 15 per cent of the Indian steel consumption, the company could not aspire to be a predominant volume player in the market. At the same time, it wanted to steer clear of being seen as a commodity supplier with the 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 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 objectives of the company's top management in launching CVM were to:

- design and implement a fitting response to intense price competition for low value-added steel through value-added market offerings for selected customers via close partnerships
- seek new sources of growth: rather than pursuing 'new sales to new customers' and face relentless price wars, the company decided to explore ways of 'selling more to chosen 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 dialogue with select customers and share the value created in an equitable manner.

PREREQUISITES FOR ENGAGING IN A CVM RELATIONSHIP

Tata Steel had realized that the seed for success or failure of the CVM implementation with a customer lies in the right choice of the customer, i.e., the 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 likewise the supplier firm must be a winner in its respective industry domain. Based on a portfolio analysis of the industries and customers that it caters to, it selected automobile, white goods, 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 programme is to enhance value chain competitiveness, it is sustainable only when there is a 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 the top quartiles of their respective industries. 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 the customer firms cannot be over-emphasized. Value in the context of CVM can be created and shared only if both the customer and the supplier firms 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 something 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 for both firms to recognize that there could be some situations on this journey that entail additional costs that one or both firms may have to incur, at least, in the short term. This can only come about if the organizations are mature enough to take a long-term perspective of their relationship.

Such a mindset transformation on the part of both the supplier and the customer firms hinges on the reasonable financial stability of both firms. If, for example, either the supplier or the customer firm or both were preoccupied with existential issues, it would perforce have to think short-term. On the other hand, only if both were doing well and were reasonably good performers in their respective industries with reasonable financial health *vis-à-vis* competition 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 15 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 towards 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 nineties, soon after the liberalization of the Indian

economy, the company was struggling to survive and was barely profitable. It was trying to cope with the new realities of the external environment. It was weak on financial reserves, burdened with excess manpower, and 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 dialogue 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. It 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, in turn, 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 700.
- **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.

Tata Steel would have made little progress on CVM had it attempted to implement it during the first two phases described above. Having decided to launch the

CVM initiative four years ago, the company identified potential CVM partners by assessing those customers who were also 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 25 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 a 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, etc.

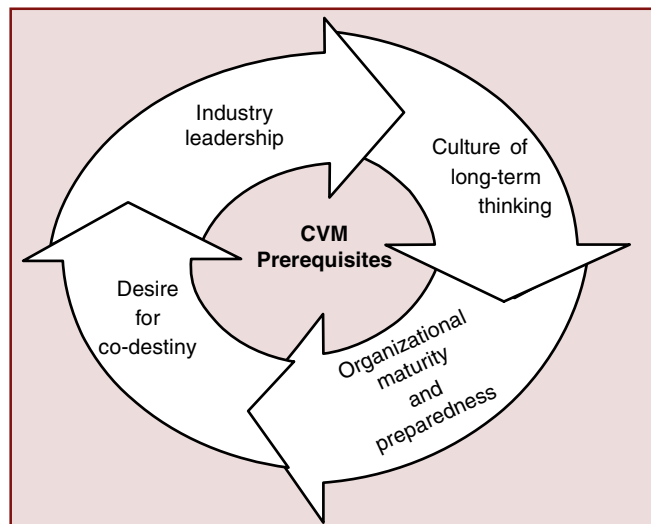
However, it must be explicitly understood by both firms that CVM cannot be a monogamous relationship. Any attempt by either to curb the degrees of operational freedom of the other, such as, for example, a customer forcing the supplier not to enter into a similar relationship with its competitor, is bound to fail. Likewise, the supplier cannot insist that the customer should not procure the product or service from its competitor. Instead, the transition to single sourcing ideally must happen organically with 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 the customer firm must satisfy before contemplating to enter into a CVM relationship thus rests on four dimensions as summarized in Figure 1. The four dimensions are not mutually exclusive; instead, they reinforce each other as indicated by the circular arrows.

CONCEPTUAL UNDERPINNINGS OF CVM

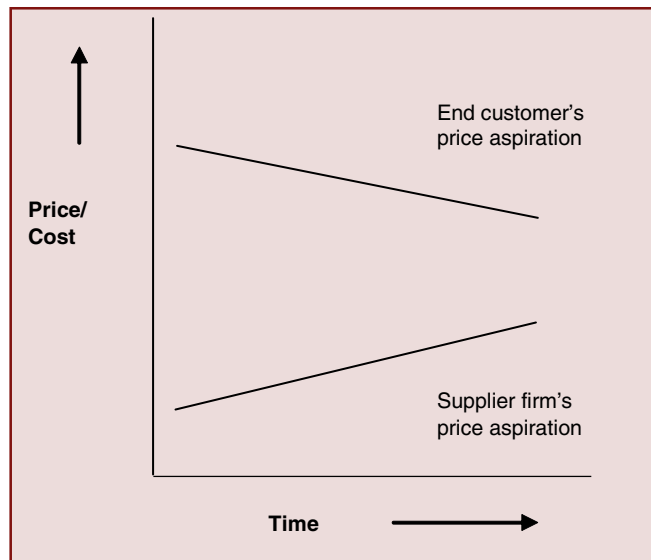
As is the case with any supplier, Tata Steel has an increasing price aspiration over time. However, a countervailing pressure arises from the forces that the customer is subject to wherein the end consumer's aspiration of price over time is a continually falling price curve.

Figure 1: Prerequisites of Supplier and Customer Firms to Embark on CVM



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 2. 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 to consequently 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 whether it would guarantee that the combination of the customer

Figure 2: Conflicting Forces Confronting Supplier and Customer Firms in Business Markets



and Tata Steel would be more competitive in the marketplace than the other options that the customer firm may have for purchasing steel. This may arise out of a lower invoice price or from increased value due to the CVM efforts or a combination of both.

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.

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 competitor 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 his/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.

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. It 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 taskforce brought in analytical rigour, 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 12 weeks of intense activity as detailed in the following.

Internal Preparation Prior to the Formal Launch

During the 12 weeks when the CVM process is launched with a selected customer, a specifically constituted team works on the programme. The team consists of the unit leader, a facilitator from the CVM group, and a set of designated key managers 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.

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 in order to obtain its 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.

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.

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. The working of the team is initially guided by the CVM facilitator (who is also a member of the taskforce) who brings in the methodology of CVM for radical performance improvement and forces rigour in the thinking processes. He/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. It 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. It 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 in the problem of handling, storing, and disposing scrap. Sometimes, investigations may also suggest the need for developing steel of new specifications.

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

Generating Ideas across the Complete Value Chain

The first three weeks 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 involving cross-functional teams from both customer's company and Tata Steel. 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 typically prevail between the supplier and customer firms, these are very useful steps in the process. The synthesis of about 15 mother ideas from a larger pool of over 200 ideas that are typically generated in the brainstorming session is done on-line which helps to build credibility for the CVM process.

Evaluating the Ideas

During the next two weeks, each idea generated is evaluated for its impact and feasibility by the joint teams from both Tata Steel and the customer firm. These are classified into the following 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 e-mail, 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. Though they require relatively minor investments, 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 requires 9 to 12 months or more, it necessitates jointly working with the customer. Examples include IT integration for seamless infor-

mation sharing, developing new products or new grades of steel, etc.

Implementation Planning and Sign-off

In the next step spanning about two weeks, the CVM team discusses the list of feasible ideas with the customer which 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 by working closely with the idea owners. The start and the end dates for implementation of each of the ideas are finalized. The idea owners are managers of either the customer firm or Tata Steel who would carry the idea forward. They are intimately involved in the planning process for implementing the ideas. There is a formal sign-off by appropriate customer and supplier managers who would 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., ‘win small, win early, and win often’ (Hamel, 2002).

Tracking and Review

The chosen managers from both the organizations take the 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 a part of the CVM taskforce, 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, which 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 12-week roll-out of CVM, there is a monthly review by the top management of both the 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.

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 the value created which Tata Steel found to be useful.

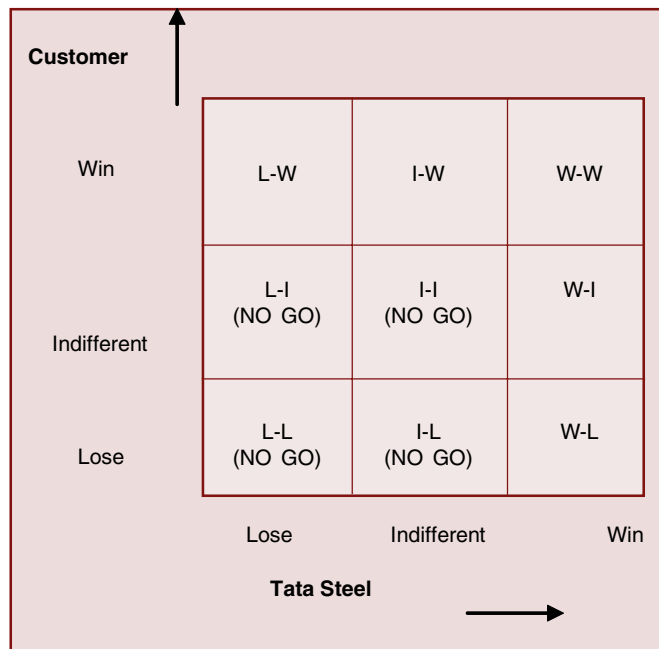
Classification of Value-bearing Ideas

Tata Steel has found that all its value creation ideas in CVM fall into one of the nine cells shown in Figure 3. The nomenclature adopted in Figure 3 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 ‘idea portfolio map.’

In the idea portfolio map shown in Figure 3, there are four distinct categories that emerge:

- 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 whose implementation results in indifference for both firms. The ideas that fall into one of

Figure 3: Mapping the Idea Portfolio in CVM Implementation



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.

- 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, 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.'
- Ideas in cells W-I (where the supplier firm wins and the customer firm is indifferent, i.e., neither gains nor loses value) and I-W (its reverse) are feasible to take forward.
- 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 'counterbalancing' 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 the respective 'gives and gets' (Anderson and Narus, 2004). The transparency and rigour of the CVM methodology ensures that the passbooks that both firms implicitly maintain match reasonably. A real test of the CVM process would be to see if both firms are reading out of the same passbook!

To illustrate how this classification would 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 of the firms 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.

To illustrate, if the customer firm's costs were to increase by \$ 60,000 ($DV_c = \$ - 60,000$) due to implementation of an idea but the supplier firm's costs would go down by \$ 100,000 ($DV_s = \$ +100,000$), then, in the overall context, the value chain would gain \$ 40,000 ($DV_s + DV_c = \$ + 40,000$) 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 focus on to how to share the \$40,000 of the 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 than what has been discussed above through an isolated idea. It is to this aspect that we now turn our attention.

Value Sharing Principles

In CVM, the effort is to generate and implement many ideas which would typically fall into one of the following five cells in which ideas can be implemented (Figure 3). 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:

- 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 the 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 the firms. Tata Steel has found that this approach calls for a great deal of maturity on the part of both the firms. This underscores the importance of an appropriate choice of the CVM customer.

- 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 the firms to look for more ideas to bring back a semblance of balance into the relationship.
- 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

The key lessons from the company's CVM implementation are as follows:

Implementation of Value-bearing Ideas — 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, of all the ideas generated, the simpler ones are quickly implemented to create the excitement and get all the stakeholders to buy into the process. These are typically the 'low hanging fruit.' Subsequently, in the same 'wave' of CVM implementation or through subsequent 'waves' of CVM implementation (after a time gap of several

months) with the customer firm, the more difficult value-bearing ideas are generated and taken up for implementation. The process then gets into a virtuous cycle whereby the more the success 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 value delivered are also vital for the programme's success.

Building Trust — 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. For building trust, however, the supplier firm must first have the perspicacity and foresight as well as the ability to make the necessary investments for mapping the entire value chain involving the supplier firm and the targeted customer firm. Typically, there are no guaranteed returns for such investments 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 forward 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 would be fully protected even after the implementation of CVM. This would go a long way in assuaging any feeling of insecurity in the customer firm's mind and help to lower the customer firm'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 the firms in building trust during the process of implementing CVM is to recognize that even in a worst-case situation, if one of them garners all the incremental value, the other is still better off *vis-à-vis* their respective start-

ing position, as, at a minimum, there would be an 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

The CVM journey with a customer is sustainable only if a rational way for sharing the incremental value created can be found. Even in a 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. The two firms may decide jointly 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 firms 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 Rigour and Looking Beyond the Obvious

While determining value that is inherent in any idea, it is essential to do the evaluation from a holistic perspective by comprehensively capturing all the value elements (covering both costs and benefits). Although an idea may superficially appear to increase the customer costs, it may also have several not-so-obvious benefits which can only be unearthed by delving deeper based on a 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. A detailed example of value creation and value sharing is presented in the Appendix.

Helping a Customer Look Beyond the Obvious to Recognize Hidden Value

The example of the supply of wider rolls to a customer from the automobile industry is illustrative. Based on a study of customer's applications, Tata Steel suggested that a steel coil of larger width (1,300 mm) be used in place of a 900 mm wide coil that was historically used 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, it had to invest for handling a heavier coil since the wider coil resulted in moving from an 18-tonne coil (when the width was 900 mm) to a 22-tonne coil for a 1,300 mm width.

Upon a 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 a higher throughput of Tata Steel's mill, which enabled the company to supply the material faster, thus increasing compliance in order filling (i.e., the 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 per cent came down to 0.8 per cent in the field tests at the customer site. The customer's manufacturing line saw a drop in the set-up time, since, in the past, the set-up had to be done after every 18 tonnes of steel usage when the coil was exhausted and a new coil had to be positioned in its place. With the wider 22-tonne coil, the set-up could be done after every 22 tonnes 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 1,300 mm. The customer required pieces of 900 x 1,300 mm size for further processing. The

productivity of the shearing equipment is based on the number of cuts per minute. With a 900 mm wide coil, the cutting was done after every 1,300 mm length. With the wider 1,300 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 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 the 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 and documented in monetary terms, 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 requested Tata Steel to execute a rush order in the stipulated time of six weeks as it would be very profitable for the firm. The order also carried heavy penalties for delay. To enable the furniture manufacturer to complete the contract within the stipulated time necessitated Tata Steel to make the supplies in two weeks from the date of order. Firstly, this required rationalizing the stock-keeping units (SKUs). Secondly, it had to carry an inventory of eight coils, specifically earmarked for this customer, to meet its requirements for such rush orders. If, for some reason, the customer was unable to use this inventory, 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 led to a significantly higher customer satisfaction which, in turn, resulted in the customer becoming more willing to buy all its steel requirements from the company. 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. While two companies could still negotiate the exact premium to be paid, there was no disagreement with regard to the principle of paying a premium since it had 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 resulted 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 market. Another important benefit for Tata Steel was that it now dealt with a customer who was 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 his/her designs so 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 programme, 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 an inherent over-design of 0.22 mm (4.92 mm - 4.7 mm). Through CVM, Tata Steel and the customer firm 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 per cent

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 customers.

In the example where Tata Steel suggested using 4.8 mm thick steel in place of 5 mm thickness, the price per tonne of steel was not changed. In traditional 'arms-length' customer-supplier relationships, this idea may not have been pursued since the quantity of steel supplied by the supplier firm reduces and also the thickness of 4.8 mm is not an industry standard. However, the power of CVM enables the idea to be taken up for implementation. The number of tonnes of steel used by the customer firm 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 per cent 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 the thickness rationalization with other SKUs that it supplied to the customer. Likewise, rationalization in length 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 a 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. The resultant 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 an increase in the customer firm's market

share and consequently volumes.

At this stage, the relationship entered into a virtuous spiral. Other manufacturers did not immediately have the capability to supply non-standard size due to the relatively poor tolerance 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 had to continue to seek value creating ideas relentlessly ensuring that complacency did not creep in. It had to constantly find newer avenues for value creation and ask itself the question (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 enabling 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 collaboration, 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 25 customers, the methodology for value sharing in the company has progressively evolved and is centred around two key principles:

- Discriminate between those elements of value creation that are amenable to sharing (i.e., shareable elements) and those that are not amenable to sharing. The latter 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 their Respective Values Created

In Figure 3, Tata Steel has found that in the W-L and L-W cells, the two firms keep their respective shares of value. In fact, in these two cells, one of the firms gains value while the other loses value. However, the company 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. Eventually, through the implementation of many ideas using the vehicle of CVM, both firms will gain. The CVM process puts positive pressure on both firms to generate more ideas to create equity in terms of gains for both firms. This requires significant maturity on the part of both firms. A similar reasoning applies to the W-I and I-W cells of Figure 3.

Situations that are Amenable to Value Sharing

For those ideas that fall into the W-W cell of Figure 3, there is need for a well-understood and transparent methodology for assessing the value created and sharing this value. Sharing the 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 firms focusing on the gain of the value chain as a whole. 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 implementation of new sources of value creation or both.

However, for the supplier firm to sustain this position requires continuous refreshing of the relationship by 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 doing. Its KM system is recognized as being among the best in the steel industry worldwide. Having had the opportunity to closely study many players in the customer's industry, the supplier firm has certain advantages that the customer firm does not. 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 — Key for Sustaining CVM

The intense degree of engagement between the supplier and the customer firms requires the exercise of considerable care 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 for the CVM relationship to continue to flourish.

As part of the credibility building process, Tata Steel has found that the 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.

The company 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, it 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 would 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 practising polygamy!

The Challenge of Continuing to Find Avenues for Value Creation

An issue that Tata Steel has been constantly grappling with is the 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 four years old and, hence, it does not have the experience of implementing CVM with a customer over the long haul. The company expects that after 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. The company 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, and myriad other avenues for creating and sharing value.

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 as follows.

- *Sharing of value is affected by how specifically tailored the idea is to the particular value chain in which the supplier and the customer participate.* The more specifically the idea is tailored to a particular value chain, the more is the propensity of both firms to intensify the co-destiny. An example of an automobile wheel manufacturer illustrates this point. In the past, Tata Steel was shipping large tonnages of steel coils to the wheel manufacturer located about 1,500 miles away resulting in significant freight costs. The relationship was an 'arms-length' transactional relationship. The CVM process immediately revealed the value drain involved in the entire process. The two firms decided that it was more appropriate to punch the steel coils to obtain 'doughnut-shaped' 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 leading to a reduction in freight costs by over 75 per cent. 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 built in high switching costs since a lot of customization of the value chain had been implemented.
- *The value sharing approach will affect the negotiating behaviour of the customer and the 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 had two different components in the contract. The first was a price contract for annual purchases by the customer. The second was a value contract for guaranteed value enhancement (or cost reduction). In such a situation, the customer firm agreed to pay a certain price while demanding through a 'value contract' that Tata Steel must provide a guaranteed increase in value to it 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 tonnes of steel per year at \$500 per metric tonne (for example) accounting for \$25 million business. Through CVM, it may find ways of guaranteeing additional value creation of \$1 million for the customer during the year through the implementation

of various ideas. Given this possibility for enhanced value delivery, the supplier would not want to discuss price and instead would be keen on discussing the 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.

- **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, the company found that such accurate sharing of value would apply only to about 20 per cent 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 in 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 the progress on the CVM. The company has found that with its CVM customers, the premium on price is arrived at indirectly and iteratively rather than seeking a higher price upfront. Moreover, often, this may manifest as a higher share of customer business rather than a higher price.

Price Discussions in CVM Accounts

To begin with, Tata Steel offers a slight discount over the competitor's price to attract the customer to enter

into the CVM relationship. Once it 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. At this stage, 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 its relationship with Tata Steel in addition to the 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 the competitor's discount as tantamount to a price premium it is paying to Tata Steel.

Based on the company's experience with CVM, it has found that CVM does not obliterate the need for customer-supplier negotiations. Both firms take respective advantageous negotiating postures in that each articulates 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 the 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 requested 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 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 the supplier firms may negotiate their respective shares of the increased value. The cus-

customer firm may suggest that the supplier firm 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 of trust. It cannot be done with an accountant's precision. With some 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 several dimensions through its CVM initiative. 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 entire organization has been significantly energized. This stems from making its employees focused on ways of continually adding more value to its customers thereby challenging them to innovate. Some of the major benefits that the company has got through its CVM initiative are as follows:

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 a 'production mindset' to a 'customer mindset.' Seeking to bring the customer to the centre-stage is providing a unifying vision for the company that everyone can relate to. It has helped to lower the functional and hierarchical boundaries. It has also helped in mak-

ing the company's working relatively seamless. In short, it has made the company more market-oriented.

Changing the 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 a deal-to-deal basis of doing business. It also provides extensive opportunity to the supplier firm to continually dialogue with different customer firms' 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 of individual managers. CVM has brought significant rigour 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 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 dialogue 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 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 the 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, the top management helps to de-bottleneck and, where required, provides funds and other resources to facilitate rapid implementation of ideas generated in the course of the CVM process. Based on a 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. He/she would typically have to address all the 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 managers in the company. The CVM process helps in obtaining 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 the employees of the company at the back-end (supply chain, production, and planning groups) and changing the mindset of all the employees is one of the major benefits of the CVM programme. This provides a lot of confidence and credibility to the CAM while engaging with the customer since he/she has the assurance that the whole organization will rally behind him/her in providing increasing value to the customers.

THE CHALLENGES AHEAD

Tata Steel has implemented CVM with 25 companies operating in India. While most of them are leaders in their respective industries, some of them are a part of large multinational companies with footprints in many countries.

The company is now facing a classic dilemma: whether to further intensify its CVM relationship with these chosen customers or alternately expand the number of CVM customers by bringing more customers on board.

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, value articulation is a non-trivial challenge requiring considerable mastery of the customer's domain. In addition, it 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 for only 15 per cent of its revenues. As the company nearly doubles its capacity from 5 million tonnes to 10 million tonnes per year and beyond, the share of exports is likely to increase. It is possible that the experience the company has gained can be transferred to its customers outside India. This may, however, require new learning on the part of the company. 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 notwithstanding. This problem could perhaps be countered with the presence of local offices in the countries where the company has major international customers. These offices will have to be manned by an interdisciplinary 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 challenging area for the company to work on, but, perhaps, this could create significant value.

CONCLUDING REMARKS

Four 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 for 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 begun only now.

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 trustworthy 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, its understanding of the process is still at an evolutionary stage. For instance, how does it 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 it 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 it 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 four years is that the process is sustainable provided there is mutual transparency. It has also realized 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, it 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 the company 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 centre-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 has also transplanted 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 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 eco-system 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 learnt by the company would be useful to other large companies that seek to embark on a similar journey, other companies seeking to launch a similar initiative have to find their own solutions to migrate select customers on the relationship spectrum after unravelling and understanding the particular terrain in which they operate. The success in the journey depends on myriad factors such as the nature of industry, product/service characteristics, maturity of the people and organizations involved, nature of competition, marketplace realities, country-specific and culture-specific issues, and many more. In order to achieve success, the supplier firm embarking on the CVM journey must abjure complacency. It is easy to see early success as the attainment of *nirvana* and slacken the effort. In reality, the journey would have only begun. ❧

Brief Background

A CVM customer of Tata Steel who is an automobile manufacturer 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 2,350 tonnes per month to this customer for manufacturing 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 the 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 and the other near Mumbai. A distance of about 1,200 miles separates these two plants.

Situation before CVM

On the 26th and the 27th of each month, the three automobile production units of the customer firm would release the 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 considering that it was high grade of steel for use in automobiles. Consequently, the customer firm was forced to give its forecast by the 15th of the previous month to the steel manufacturers largely based on guesswork.

The customer firm additionally had a service centre 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 centre, component manufacturers, and the automobile production units (auto-assembly units) of the customer firm was 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 as 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. Its selling relationship 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, the company 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. A 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.

Prior to CVM implementation, the goal of the service centre 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 centre placed orders for supplying over 250 different 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 2,350 tonnes, this meant that the average 'per SKU' consumption was less than ten tonnes per month. Since the average minimum weight of a steel coil and consequently minimum order size was in the range of 15 to 20 tonnes, both Tata Steel and the customer firm were forced to operate at very high inventory levels.

The service centre kept an inventory of 4,000 tonnes in order that it could cater to a monthly consumption of 2,350 tonnes spread over 250 SKUs. This high level of inventory was despite 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 centre.

Ideas Implemented as a Consequence of CVM

Reduce the Number of SKUs 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 dialogue based on data, the mindset of the service centre 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.

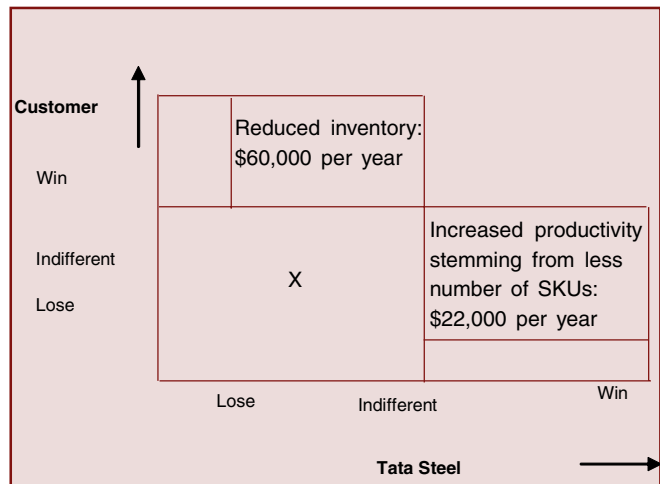
In the past, there was a trimming operation at Tata Steel to meet the exacting size requirements of the customer firm. This was eliminated and all the sizing operations were now moved to the customer firm's service centre. This step greatly reduced cycle time for supply from Tata Steel. After rationalizing the SKUs by a thorough analysis and implementing various ideas generated through the CVM process, the number of SKUs dropped initially to 61 and, subsequently, after implementing several other ideas, it further reduced to the current level of 40.

As a result of these changes, the service centre reduced its inventory by 25 per cent resulting in a savings of \$ 60,000 per year. The new SKUs were wider. Consequently, the service centre had 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 Figure 1.

Enhancing Coil-width and Augmenting Coil-handling Capacity at the Service Centre

Prior to CVM implementation, coils with a maximum weight of 16 metric tonnes were handled at the service centre. Based on the SKU rationalization and consequent increase in width and weight of the steel coils that required to be handled, the service centre was requested to invest \$550,000 per year (one-time investment) for

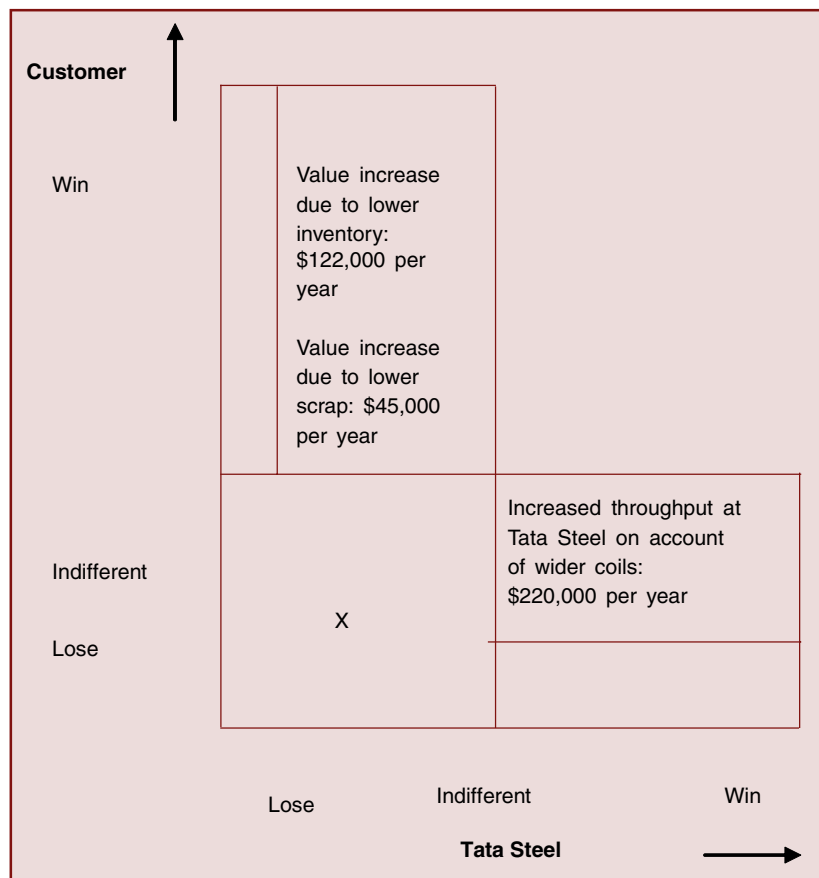
Figure 1: Mapping the Value Creation in CVM Implementation with an Automobile Manufacturer



handling the heavier coils. This resulted in its ability to handle coils with a weight of 30 tonnes each and a width of 1,600 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 its ability to handle wider coils and hence higher productivity in terms of throughput in tonnes. Figure 2 shows the resulting value creation in the 'idea map.'

Figure 2: Mapping the Value Creation in CVM Implementation with an Automobile Manufacturer



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*But words are things, and a small drop of ink,
Falling like dew, upon a thought,
produces that which makes thousands,
perhaps millions, think.*

George Gordon Noel Byron