

Mars Made Millions

Customizing M&M's

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The impact of product customization on sales and profitability

In March of 2004, Mars, Inc. launched [My M&M's®](#), an experiment that would soon become a thriving independent business unit called Mars Direct. My M&M's allows buyers to personalize the company's best-selling M&M's chocolate candies with text or images, and while the company keeps sales figures close to the vest, Marc Meyer, a professor at Northeastern University's College of Business in Boston, who has studied the business extensively, has written that soon after the launch of My M&M's, "sales had surpassed \$10 million and continued to accelerate."¹

Study after study shows that product customization is the future of ecommerce, and retailers in sectors ranging from apparel to consumer electronics are already reaping the benefits. Nike and Timberland, for instance, allow their customers to design their own footwear (selecting colors for soles, uppers, laces, stitching and more) via [Nike ID](#) and the [Timberland Boot Studio](#).

Customers are willing to pay a premium for products that are tailored to their needs and preferences. Custom footwear from Nike and Timberland costs about 10 percent more than standard products,² but a 2013 study by Bain & Company reveals that customers are willing to spend an average of 28 percent more for customized goods.³ The reason? In the January, 2010 issue of *Management Science*, authors Nikolaus Franke, Martin Schreier and Ulrike Kaiser describe an "I Designed It Myself Effect" in product customization. This psychological phenomenon causes buyers to assign more value to products they've had a hand in creating and therefore exhibit a willingness to pay significantly more for such products.⁴ Buyers of self-designed products are also far more likely than buyers of standard products to become brand loyalists and repeat purchasers.

1. Meyer, Marc. *The Fast Path to Corporate Growth*. New York: Oxford UP, 2007. Print.

2. Winebaum, Sam. "Mass Customization and the Long Tail." *Sam's Running, People, Places, and Things*. 31 May 2005. Web. 22 Sept. 2014.

3. Spaulding, Elizabeth, and Christopher Perry. "Making It Personal: Rules for Success in Product Customization." *Bain & Company*. Bain & Company, Inc., 16 Sept. 2013. Web. 19 Sept. 2014.

4. Franke, Nikolaus, Martin Schreier, and Ulrike Kaiser. "The 'I Designed It Myself' Effect in Mass Customization." *Management Science* 1 Jan. 2010: 125-140. Print.



Until fairly recently, a majority of online retailers were not able to offer customized products. The costs and time associated with

set-up and production would necessitate large mandatory minimums, which would have limited sales possibilities.

However, new technologies have made it possible to produce customized products on demand and enjoy the benefits of increased revenue and customer loyalty. Of the opportunity product customization presents for

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retailers, Elizabeth Spaulding and Christopher Perry of Bain & Company write:

“The opportunity appears to be significant: A Bain survey of more than 1,000 online shoppers found that while less than 10 percent have tried customization options, 25 percent to 30 percent are interested in doing so. While it is hard to gauge the overall potential of customization, if 25 percent of online sales of footwear were customized, that would equate to a market of \$2 billion per year.”⁵

Offering customization options to your customers will enable you to explore new markets, increase your sales and profitability, and build brand loyalty.

Drivers for embracing customization: why now?

Product customization is becoming increasingly important to buyers while at the same time becoming more feasible for retailers. Some great reasons to begin exploring customization now include:

Increased customer demand

Consumers’ expectations are changing rapidly as the online experience evolves and becomes more personalized. Everything we see and do online—from music and movies to content and advertisements—is carefully curated and served to us based on our habits and preferences. As such, our demand for products that are similarly tailored to our needs has never been higher.

It seems that our desire to self-design the products we buy is not limited to big-ticket items. Manufacturers have discovered that their buyers expect to have the ability to customize even low-end products. In a 2007 survey of American manufacturers, 75 percent of respondents felt that customization was either very important or critical for products priced \$100 or less.⁶

Better, cheaper product configurators

Today’s customer-facing product configurators are far more robust and less expensive to build than those available just a few years ago. While a custom configurator would once have cost you \$1 million, you can expect to pay closer to \$50,000 today.⁷

5 Spaulding, Elizabeth, and Christopher Perry. “Making It Personal: Rules for Success in Product Customization.” Bain & Company. Bain & Company, Inc., 16 Sept. 2013. Web. 19 Sept. 2014.

6 Seybold, Patricia. “Smart Customization Comes of Age.” Customers.com. Patricia Seybold Group, 8 Jan. 2009. Web. 23 Sept. 2014.

7. Gowdner, J. P. “Why Large-Scale Product Customization Is Finally Viable for Business.” Mashable. 13 Apr. 2011. Web. 22 Sept. 2014.

Availability of digital printing equipment and web-to-print technology

One of the best and most popular ways to personalize products is to allow customers to choose images or text to be printed on them, and the cost of the necessary equipment is no longer a major barrier. Digital printing equipment is far less expensive than it was just a few years ago, and this equipment can now produce extremely high-quality results. Digital printers, combined with today's sophisticated (and affordable)



web-to-print technology, have dramatically reduced the time and costs associated with the production of many types of customized goods.

How Mars capitalized on customization

In a report entitled *My M&M's—An Internal Corporate Venture*, authors Marc H. Meyer and Richard Luecke describe how product customization enabled Mars, Inc. to overcome a key obstacle to its growth.

Family-owned Mars, Inc. in Hackettstown, New Jersey produces the world's most popular candy, M&M's. Introduced in 1941, M&M's is now a billion-dollar global brand.

Also home to wide range of other highly successful candy brands (including Snickers®, Milky Way®, 3 Musketeers®, Mars Bar®, Dove® and many more), Mars found itself facing a new challenge in the late

1990s: market saturation. The company needed to find a way to continue to grow despite having already earned a large percentage of all available retail shelf space.

When the company's R&D team proposed the idea of customizing M&M's by printing images

or text on the candies' shells, senior management initially showed little interest. Meyer and Luecke write:

“Indeed, the idea of making and selling a customized product flew in the face of Mars' operating philosophy that had made it the world's largest candy and snack food company: high volume and low cost.”⁸

A group within R&D continued to experiment with the concept, however, and began looking at new printing techniques. The traditional “m” on standard M&M's was printed using a rotogravure process. Printing custom images this way would require the creation of a special printing drum for each order at a cost of \$1500 each. The team believed that customization could be made cost-effective if they could find a way to print on the candies' surfaces using ink-jet technology.

While they tinkered with printers, the team launched an internal pilot program, producing small batches of custom M&M's for employees and company events.

“The the idea of making and selling a customized product flew in the face of Mars' operating philosophy... high volume and low cost.”

My M&M's sell for about four times the retail price per ounce of standard M&M's.

8. Meyer, Marc, and Richard Luecke. *My M&M's—An Internal Corporate Venture*. Thousand Oaks, CA: Sage Publications, 2011. Print.

While the M&M's were extremely popular among employees, the custom candies were still expensive and time-consuming to produce. But as soon as the team had a working ink-jet printer prototype, the costs and time necessary to produce custom orders dropped dramatically. No special equipment was necessary for each new order, and order fulfillment time dropped from five weeks to just a few hours. It

Personalizing products with art or text is an easy and inexpensive way to incorporate customization into your business model.

was time to make the case to senior management that custom M&M's represented an exciting new business opportunity.

In preparation for "Pioneer Week," an event during which product line and R&D managers would present their most promising ideas, the team conducted another internal experiment. They created an intranet site through which company employees could

place orders for custom M&M's with the goal of using customer feedback to determine minimum order sizes and pricing.

Their tests produced surprising results. Demand for the custom M&M's far exceeded the group's expectations, and it seemed that the higher they set the price, the more their customers wanted to purchase. Armed with



the proof they needed that custom M&M's could be produced cost effectively and priced at a premium, the research team presented their idea to senior management. This time, their reception was much different.

In 2004, Mars began offering custom M&M's through a link from its main website, and sales took off. The team continued to use customer feedback as a guide for pricing, customization options and minimum orders. Today, custom M&M's (now called "My M&M's") are available in 20+ colors, and customers may upload their own images to be printed on the candies. A variety of packaging options are also available. Pricing starts at approximately \$12 per 7-ounce bag, about *four times the retail price* per ounce of standard M&M's.

As of 2006, My M&M's is its own business unit called Mars Direct. Mars Direct has now expanded customization into brick and mortar retail, offering personalized products via an interactive printer at a New York City store.

Adapting your own business model: challenges and solutions

Enabling customers to personalize your products will require you to re-think your entire business model, from your customer-facing systems to your production and shipping processes. As you prepare to adapt, there are three key questions you will need to answer.

#1: What type(s) of customization will you offer?

In order to make customization work for your business, you will need to find ways to meet your customers' expectations while maintaining profitability. The most important decision you will make is the type(s) and number of customization options you will make available to your customers.

A 2009 report by the Patricia Seybold Group outlines four types of “smart customization”:

1. Custom-configure products from a set of standard components.
2. Custom-tailor products to meet specific dimensions or tolerances.
3. Personalize products to include artwork or other intellectual property the customer contributes.
4. Use personal “manufacturing” solutions to enable customers to produce their own custom-designed products.⁹

For most retailers, custom configuration and/or personalization with art or text are the easiest and least expensive ways to incorporate customization into their business models.

In terms of the customization options you will offer, consider that while too few choices may not be enough to encourage buyers to customize, too many options can be overwhelming. Bain & Company’s study indicates that there is a “sweet spot” for customization just beyond the halfway point between an off-the-shelf product and a fully customized product.¹⁰

#3: How will you minimize order fulfillment time and cost?

Research by UPS and ComScore shows that delivery time is a key factor in customer satisfaction,¹¹ and satisfied customers are far more likely to become loyal customers. But producing customized goods, particularly on a small-scale or one-off basis, has traditionally been time-intensive, people-intensive and costly.

You can keep production costs down and minimize delivery times by using technology rather than



#2: What kind of self-design experience will you provide?

User experience will play a critical role in the success of your product customization program. Your product configurator should walk the customer through the design process step by step and clearly show his or her progress. When possible, allow the customer to view colors, fonts, etc. before making a selection. A real-time product preview will allow the customer to experiment with various options without having to start the design process over. An ability to view the product from multiple angles is essential if you are allowing buyers to customize the back, bottom, top or sides of the product. [Timberland’s product configurator](#) is a good example of self-design done well.

“people power” to produce your custom products. Start by integrating your customer-facing systems with your production facility. Using today’s web-to-print technology, you can automate a significant portion of your production process, generating print-ready files and sending directly them to your printing equipment (or off-site order fulfillment facility) without the need for human intervention. You can achieve additional efficiency gains by integrating your ecommerce and order fulfillment systems with your ERP, inventory, supplier and accounting systems.

9 Seybold, Patricia. “Smart Customization Comes of Age.” Customers.com. Patricia Seybold Group, 8 Jan. 2009. Web. 23 Sept. 2014.

10 Spaulding, Elizabeth, and Christopher Perry. “Making It Personal: Rules for Success in Product Customization.” Bain & Company. Bain & Company, Inc., 16 Sept. 2013. Web. 19 Sept. 2014.

11 Moth, David. “Free Shipping and Delivery Timing Are Key for Customer Satisfaction.”Econsultancy. 6 June 2012. Web. 23 Sept. 2014.

Conclusion

Incorporating product customization into your business model is an innovative way to gain an advantage over your competitors and significantly boost your sales. By leveraging new (and more affordable than ever before) technologies, you can provide an outstanding self-design experience for your customers while making the production of custom goods fast, efficient and cost-effective.



About Dolphin Micro, Inc.

Dolphin Micro is a web and mobile development company specializing in fully integrated, front-to-back custom business systems, including product customization systems.

Read more about how Dolphin Micro's product customization solutions at http://www.dolphinmicro.com/custom_products or call 888-589-2194 to speak with a consultant.

