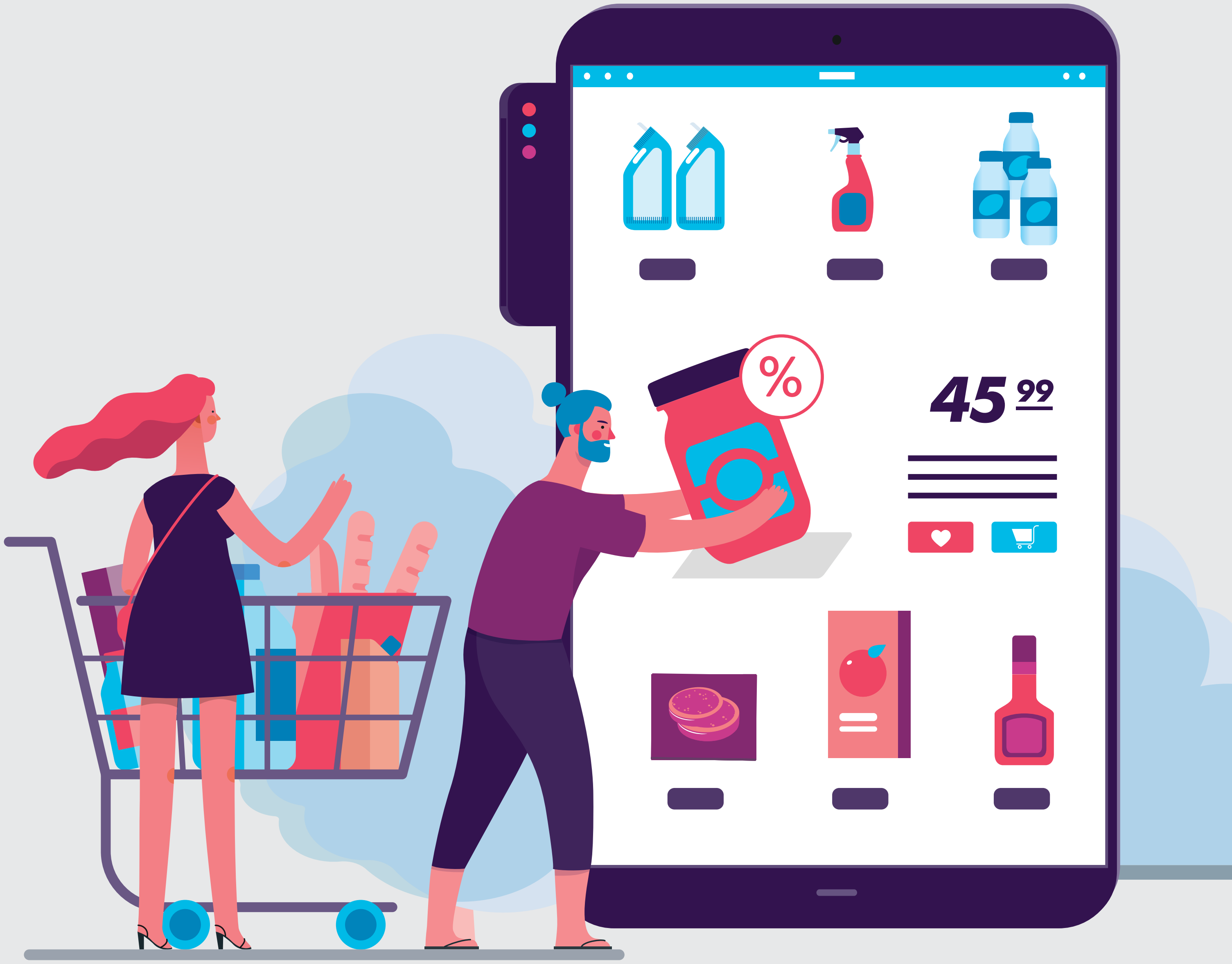
Coupled to success

Innovating in collaboration across new consumer landscapes



Forewords

Our willingness to collaborate must overcome a culture of secrecy

***Eddy Vanhille,** Chief Procurement Officer, Metro Cash & Carry*

It's a strange thing collaboration: everybody wants to talk about it, but few put their hands up to do it. Among fast moving consumer goods and consumer packaged goods manufacturers there is a huge pressure on sales, margins and on income. They know that if they compete on price, it becomes an unsustainable race to the bottom: it's just too easy for consumers to compare on price and switch brand or retailer to get the best deals.

So, from manufacturers we see a willingness to collaborate with retailers to capture consumers' imaginations and earn their loyalty. There is interest from the retail side too, but also a reluctance. To collaborate, retailers need to share information about sales, marketing and promotions, but they are afraid to do so. Even if they only share data with suppliers, there is a fear it could make it into the hands of competitors, so much is the level of competition in this industry.

I hope this paper will show both retailers and manufacturers why they could benefit from being more open and illuminate some of their first steps towards more sustainable collaboration. Because of the changing landscape for the digital consumer, there is a sense of urgency in the industry. We need to convert that into action. We need Innovation in Collaboration.

As consumer loyalty shifts to online platforms, we need to work together

***Julie Hamilton,** Global Chief Customer and Commercial Leadership Officer, The Coca-Cola Company*

Some consumer businesses are lucky enough to have well recognised brands, worldwide. But while they will continue to try to take advantage of them, we also know the world is changing. If we don't evolve with it there is the potential for the industry to get into trouble.

The industry talk is all about platforms and networks. These are the social media, online retailers and technology platforms that occupy so much of consumers' attention. At the same time, transparency has become very important to every consumer and information is available all the time. Online networks empower consumers, giving them visibility to product provenance, pricing and the views of their peers.

Now platforms have become trusted brands in own right we need to evolve in that space. Will the average consumer change product brand because of an online recommendation by a platform, or news shared on social media? We need to understand who the consumer's trusted advisors and suppliers are, and make sure that we are involved in that process.

Then there is the technology itself. There are a lot of technical improvements upstream and downstream: just-in-time supply chains down to the second and demand planning based on artificial intelligence. Such technology could give us the ability to know what consumers want before they know themselves. Technology will change our businesses the way it never has done in the past. It will also have millions of trickle-down effects that we must understand. But we can't do it alone. Successful evolution of this industry will only come through collaboration with our supply chain partners and retail customers.

Why we need new collaboration models to keep up with consumers.

Some firms believe success means growing bigger. Successful firms build bigger markets. But they rarely do it alone. Not anymore. Not in consumer industries. Channels to consumers are changing so rapidly it is hard for the industry to find the connection it once had. As if the web, social media and subscriber TV were not enough, voice-controlled assistants have moved into the home and are commanding consumers' attention. The market for smart speakers grew 653% in its first five years, more than twice the rate smartphones did. The company which commands the majority of the market is also the largest online retailer in the West: Amazon. By 2020, researchers expect half of web searches to be made by voice. Where do these trends leave incumbent retailers and consumer goods firms?

Influenced by immersive social media and always-on digital connectivity, consumers are keen to find the products and associated services to which they feel the greatest affinity. When they make a choice, they want orders to be fulfilled in the easiest, most convenient way possible. From the technology and digital native world, the threat of disintermediation and Uberisation is rife. Currently, our industry is losing share of wallet to these more proactive industries. Although online business does not represent the majority of consumer trade, the influence of the digital experience changes the fundamentals of our industry more than direct sales alone. Few retailers have perfected a seamless omnichannel experience, where consumers hop from web to smartphone to store and are recognised by retailers and treated in a consistent and compelling manner.

At the same time there has been a shift in products between the channels. The most profitable categories, non-foods, are seeing a greater shift to ecommerce while the less profitable items, fresh foods, are losing uniqueness due to the quality choice available in convenience store formats. These trends are creating challenges in pricing, which in turn becomes taxing for suppliers and manufacturers.

Offering value through consumer experience

But it is not only channels that are changing. The consumer is too. Millennial attitudes mean many retailers and manufacturers are out of step with the greatest growth opportunities. Millennial consumers value experience as much as they do product, and they expect brands to represent a set of ethical values. Because information about companies' supply chain activities is becoming more visible and easy to share, and misalignment with those values and expectations will be rapidly punished by the cohort. Spending patterns have also shifted. People under 30 spend only 8% on FMCG goods (mostly food), whereas for older generations spending is around 14% – another factor in the industry gradually losing share of wallet. This is where tech-native companies have the advantage. The more astute they are with the continual flow of consumer data and the more time consumers spend with them, the easier they find it to understand and anticipate consumers wants and needs. These firms have also built digitalised supply chains from the ground up and are now investing heavily in artificial intelligence and robotics to automate their processes and drive out costs.

As investors move into higher growth markets, retailers and consumer goods firms experience even more pressure on margins and productivity. At the same time, online retail is creating expectations of home deliveries – and online returns – which make it difficult to maintain margins. The online retailer picks, packs and delivers goods when the consumer once carried out these tasks. The last mile of delivery is particularly challenging, especially in urban areas. Consumers expect expedited delivery times, with narrow time-slots. Same-day delivery is becoming more common and expected. Retailers are struggling to find the volume to make these commitments with any kind of profit margin. Even in conventional retail, margins are harder to maintain. Consumers once took fewer trips to the store but spent more during each trip; now they make more trips and spend less.

Risks in going it alone

The shift in the industry is summed up as follows. Brands were in control in the 1970s and 1980s, and retailers were in control in the 1990s. Now, shoppers are in control. The digital disruption we have seen so far is the tip of the iceberg.

And there is a risk of the industry reacting badly to its current challenges. It may be tempted into a sudden focus on shorter and shorter cycles. Retailers may pressure suppliers into giving up margin to increase their profits. But that's not sustainable. It's better to look at the market, as a whole.

As consumers expectations are rapidly changing, the industry's approach must respond. We need a focus on innovating in products, services and experience. Retailers mostly focus on their individual response, making significant digital transformation investments – as do manufacturers. Yet, only synergetic collaboration can provide the decisive boost. To exceed consumers' expectations, and keep them enthralled, we need harmony between brands' online presence, the digital and physical retail experience, and the development of products and services. By collaborating to provide a seamless experience, we back the share of wallet through increased consumer satisfaction.

Of course, there are already pockets of successful collaboration, such as Joint Business Planning practices. But few have innovated at scale. Across the industry, we believe that there is still potential for a great deal of improvement and members of The Consumer Goods Forum are ready to lead the way.

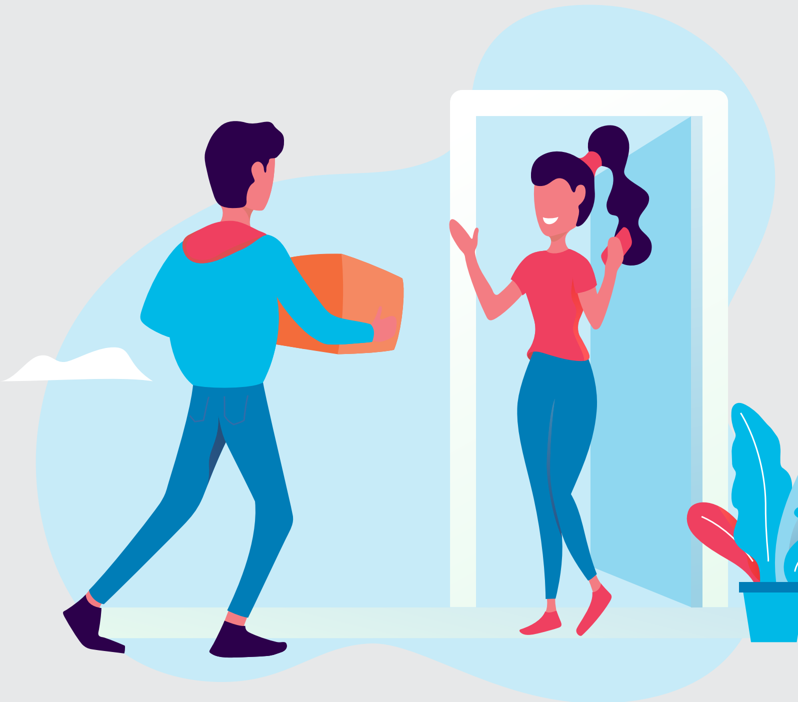
We set the right course by recognising our respective strengths: retailers understand consumers (or should), manufacturers understand products and the supply chains. By working together, sometimes flexibly and rapidly within a strategic framework, we can increase value to the consumer and grow the market. Collaboration is imperative, and it cannot wait.

Why? Because the competition is already there. It is easier than ever for young companies to access assets without raising vast amounts of capital. From a laptop, they can create new products, assemble production and organise delivery capacity all through readily available services. They have a constant eye on their target market on social media, through which they also promote their products. At the same time, an abundance of pop-up retail space gives these entrepreneurs immediate access to a physical market. Their focus is purely on marketing and understanding consumers' minds. Retail is simply surface and space management, optimising convenience for consumers in a human-centric way.

The confluence of connected technologies and services, entrepreneurship and social media, leads to strange scenarios where production, transport and distribution assets will be reduced to mere facilities management, while the planning, brand creation, sourcing, buying, selling and servicing all take place in near real-time.

Not convinced yet? Well, there is another driving force demanding a new approach to collaboration across company borders. Automation is set to create digitally autonomous organisations in which machines will learn to take decisions based on demand and supply signal patterns. These machines can only take pre-defined decisions based on calculated results, it will not (yet) invent its own actions. Communication among machines across company borders offers new and flexible ways to create new products and get them to market more rapidly to keep up with accelerating demand.

While many day-to-day decisions will be increasingly delegated to machines, it will be people who need to understand the new approaches to collaboration. It will require a re-definition of business processes and business rules. Those failing to engage with the new models of collaboration described in this document risk falling behind in the race to meet changing consumer expectations. That's worth a pause for thought.



What are the barriers to collaboration?

It is a triumvirate that dominates the relationship between consumer goods manufacturers and retailers: product, price and promotion. They make up the bulk of the conversation and negotiations between the two parties. Whatever the outcome, that is what the consumer will see. So great is the focus on these elements, and perhaps merchandising and positioning, innovation outside of them is rare.

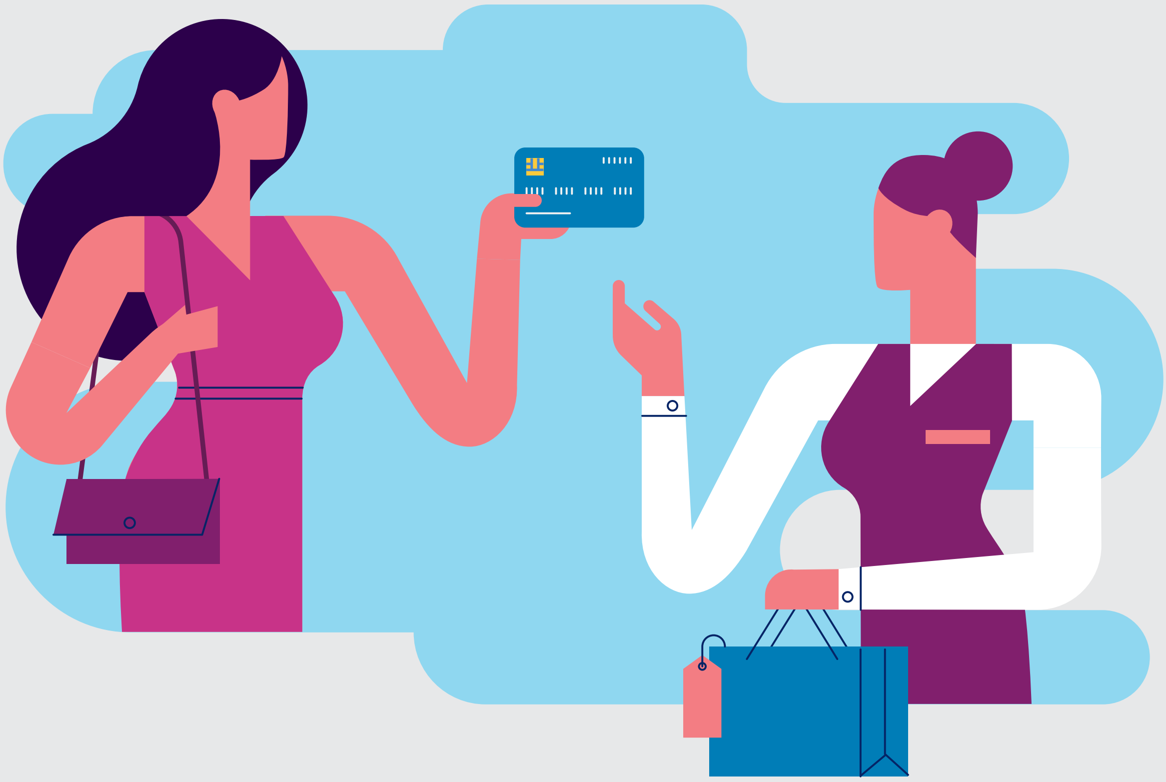
Even limited to these elements, conversations are slow. Retailers and manufacturers will meet to discuss them on an annual, quarterly, or, at best, monthly basis. While there is an appetite on both sides for more innovative collaboration, the immediate focus on this month's financial figures will see that negotiation product, prices, and promotion drown out more ambitious forms of collaboration.

Price negotiations can tempt retailers and manufacturers into believing their relationship is a zero-sum game: what comes out of one's profit margin goes into the other's. Three-quarters of retailers are under tremendous profit pressure. Meanwhile, online-only merchants have enjoyed lower barriers to market entry and created an unsustainable race to the bottom based on price. If traditional retailers and manufacturers compete solely on price there will be no winners; only increasingly desperate players fighting over a shrinking market. That approach makes it difficult to enter into the spirit of collaboration: retailers are reluctant to share data on their internal processes, consumer intelligence and demand signals because they see a risk in losing the upper hand in price negotiations.

Commercial cycles erode trust

A lack of openness makes it difficult to build trust, and trust is the very thing both parties need to lay the foundations of innovative collaboration. Another problem with the existing relationship focus is an excessive number of promotions that destroy value for retailer and manufacturer. They become the new norm and fail to increase the customer base or brand recognition.

Although architects of digital strategy may have an ambitious vision for both retailers and manufacturers, too often the industry struggles with the most basic level of collaboration. Connectivity between companies is not good: too many people work in their professional or organisational silos and fail to contribute value beyond meeting short-term targets. There is a lack of accuracy in content management between manufacturers and retailers and both struggle with visibility of channel strategy. Similarly, product code standardisations are not well managed, creating too many unnecessary errors and clouding visibility upstream and downstream in the supply chain. To get by, organisations build in redundancy, making the flow of goods through the network inefficient. Jointly working to iron-out inefficiencies could see the benefits shared between supply chain partners but doing so comes back to the issue of trust.



A fragmented view of the consumer

The barriers to sharing data up and down the supply chain have several consequences affecting the execution of collaborative strategies. They mean retailers and manufacturers fail to share a common vision of the consumer, leading to an overall lack of joint professional insights on categories. For example, insights from brands should provide increased trust for retail buyers. Throw into the mix competition between retailers' private label categories and brand owners, and there is always the potential for trust to break down.

So, even when there are discussions at the CEO level to drive for collaboration, that ambition does not make it down through the organisation. All the above factors create inertia, making it nearly impossible to get collaborative projects out of the pilot phase. Beyond that, establishing a business case for major investment in collaboration is tough because any notion of return on investment relies on multiple parties, untested working relationships and long-term thinking. All too often, short-term targets drag organisations back into the old ways of working.

To thrive in the new consumer and retail environments, merchants and manufacturers need to ask themselves some serious questions:

- How do we jointly delight consumers, rather than simply transact with them?
- How do we jointly engage shoppers using omnichannel and digital platforms that include the store?
- What should long-term, KPI-driven collaboration look like? How do you avoid backsliding into short-term fire-fighting?
- How do you build and support joint cross-functional, cross-organisational teams with the right skills and mindsets?

While the industry understands the threats and can imagine strategies to counter them, getting plans for collaboration off the drawing board and into daily routines is difficult. We need new rules of the road, some guiding principles to get moving forward to take collaboration from the merely functional relationships and into the commercial and the strategic domains. The Consumer Goods Forum has put some work into solving these problems and produced an Innovation in Collaboration framework, described in the next chapter.

A framework for working together

Nearly 20 years after writer William Gibson coined this often-repeated aphorism, it rings as true as ever. If consumer industries want to see the future, they can look around, to Airbnb, to Deliveroo, to ASOS. Consumers know what cool convenience and delightful service feel like. And they are coming to expect it wherever they shop.

If we are to distribute the future a little more evenly across consumer industries, then we need a plan. For at least 10 years there have been good intentions to change the way suppliers, consumer goods manufacturers and retailers work together, but, as yet, we see little success at scale.

Data sharing offers new vision of the consumer

The new collaboration model starts with jointly understanding consumer and shopper needs and occasions – that is when consumers make buying decisions and when they shop. Too often retailers and manufacturers have different views of the consumer. Brands engage through social media, websites and product research, while retailers hold store and online shopping data. Only by sharing data can the industry create deep insights, leveraging all relevant data-points. Then we can create a common understanding on what value we can add to consumers.

The fact-based and consumer-relevant 'category visions' that result from shared insight will renew the roles of categories and brands (for both the retailers and the manufacturers). New roles will become a gateway to a range of joint innovation initiatives based on experiences and services around products, with collaborations in-store and across other (digital) channels. Collaboration will create a value proposition that will also help to reduce inefficiency – both in logistics and in product promotions. The value proposition (with potentially new joint business models) will frame the negotiation process in a different, more positive manner, with focus on value sharing. The cadence of this new collaboration model has different modes, with multi-year building-blocks delivered via short-cyclic business innovation initiatives, which provide substance to the annual negations. The ultimate proof of success of Innovation in Collaboration comes from improved shopper experience and subsequent mutual profitable growth.

Ten guiding principles to Innovation in Collaboration

1. Laser focus on jointly delighting shoppers and consumers
2. Joint commitment to establish mutual profitable growth through top-level engagement and continuous governance rather than ad-hoc decision making
3. Multi-year building-blocks delivered and managed via short-cyclic value-sprints ('test and learn') and monthly scorecards
4. Synergetic sharing of deep shopper and consumer insights
5. Breakthrough in mutual trust via collaborative cultures, skills and rewards
6. Disruptive, agile approaches to drive mutual value from digital technology innovations
7. Delivering relevant experiences and services beyond the product (in-store and across other digital channels)
8. Cutting out current sources of inefficiency in the retailer-manufacturer interface and tactics
9. Increase decision-speed and time to market (responding quickly to changing needs and conditions)
10. Frame the negotiation process with clear value-sharing mechanisms

> *"The future is already here – it's just not evenly distributed."*

Tools for the job: data, process and skills

Much of the technology for Innovation in Collaboration is already in place and becoming battle hardened. It is changes to the organisation and management of people that will be the greatest challenge.

Instead of thinking in terms of traditional company borders, in the future employees will consider their departments as assets to be built into a value stream that cuts across organisational boundaries, guided by consumer demand. The terms 'producer', 'retailer' and 'consumer' will become blurred. However, internal talent will remain a source of value.

Collaboration also requires organisations to consider what data needs to be shared between companies to speed-up decision making. They will also need to assure data accuracy.

People with an open mind for understanding the value proposition of sharing data wisely, as opposed to simply protecting it, need to be promoted according to the successes they achieve. They cannot do it alone. They need support to locate their peers hidden deep within the organisational structures of business partners.

Organisations will need to define a framework to guide changes to business processes. People need to understand how to capture and connect data to build the knowledge base for the next phase of competitive advantage, whether that's in product, promotion or service.

The unique selling point of a successful collaborative company will not be in the number of distribution trucks they own or size of store space they offer, but in the skilled people who know how to handle data, work with machine learning tools, and mould plug-and-play processes to enthral consumers with new offers while simultaneously slashing time to market.

The way forward

There is no blueprint telling businesses how to advance Innovation in Collaboration. But a few companies are learning from their experiences and, here, four senior executives share the lessons they have gathered in working across organisational boundaries.

Put commercial conditions to one side when collaboration kicks off

***Eddy Vanhille**, Chief Procurement Officer, Metro Cash & Carry*

Unlike many other retailers, we are keen to talk about collaboration and see it take root in the industry. We have experimented with collaboration on a small scale and have some lessons we can share.

The first is, you must have commercial conditions agreed before the period of collaboration and any changes to commercial arrangement must be discussed in parallel. You have to separate discussion over price and margin from collaboration, otherwise you get dragged into the same old conflicts, the main focus on the collaboration is lost, and you fail to achieve your goals.

Where we have tried collaboration, it's been worthwhile, but we have not achieved everything we expected. I think the reason is the scope. Once you've chosen a supplier to work with, you have to have enough categories to go at. We focused on one category and it was not enough. If you have three or four, you could have a couple of projects struggle, but you should still be able to show how collaboration delivers value.

Lastly, you need to be careful with the number of stakeholders. If you choose to work with too many on the supply side it will hold up the project: everyone has an opinion and it takes too long to make decisions. On the retail side, you need someone from corporate, someone at a country level, someone from marketing and someone from commercial. But not much more. You need to be small and quick and get some results fast.

People are the heart of collaboration projects

***Gerald Kühr**, Chief Customer Officer, Unilever*

In Europe, at least, the market is ready for collaboration; there is such limited growth and it is not much fun fighting over margin all the time. Most people recognise collaboration is the way to go.

You hear a lot of talk about transformation models, but for me, when you want to change a culture, you must start with the right person. They need the right spirit and belief…the sort of person that others trust from the beginning. If the other side does not trust your good intentions and believe in the benefits of collaboration, it will fail.

The whole Unilever corporation is an advocate of collaboration, but programmes need to be owned at a country level. That is where the music plays. You need a country general manager, or perhaps head of sales, to lead the programme.

We've had some success with collaboration where we were able to move the conversation with a retailer from negotiating on price to selling to the shopper – and that is much more fun. But to focus on value creation, you need data. By sharing data, we could look at what the retailer wanted to achieve with a category. Do they want more customers? Or more product usage? Do they want to shift more volume, or move customers to a more expensive brand? With our category-specific knowledge we are able to create the right marketing tools and promotions to shift shopper behaviour with the retailer, increasing sales for them, and in our important categories.

Relying on personal relationships in this way can be risky. The turnover of people in our industry can be high, so it can be difficult to keep the continuity. But if you gradually build enough cases of success, collaboration will achieve critical mass, and nobody will challenge it any more.

Collaboration is a mindset as much as a method

***Mark Russell,** Vice President Customer Development, Coca-Cola*

Consistency is important in collaboration. If we are working with multi-national customers, we don't want a different conversation in every country. You need to be consistent in the order in which you do things and the capabilities you stack behind them.

But to get that first interest, that first bit of traction, you need to see the world through the partner's eyes – in our case the retailer's eyes – and tell them something they don't already know about their business and consumers. Then, based on that understanding with the partner we might start a pilot – on a regional level.

We are not focused on a category or brand – it is much more holistic than that. The real key is getting a view of all the things we could bring to the party and understanding what a win-win for both of us could be, and then coming up with a joint operational plan between us. It would be focused on more than just the retail margin you make from selling a range of products. Many other things are valuable that can grow the whole category. That may be actionable insight, marketing assets, better logistical planning, even better billing processes; there is a broad range of activities we can work on together.

The pilot then becomes the aspirational approach for everyone else. That is the way that you cascade the desire and capability through the organisation. Our market is very competitive, but consumer organisations are competitive internally too. If one country, or brand, is successful through collaboration, others will follow.

Lastly, we need to show it is a mindset, not a project or department. It should be the way you do things, embedded in the DNA of the organisation. When it is, we can take on the challenges of the rapidly transforming consumer landscape.

Create a start-up culture to challenge internal barriers

***Enrico Toja,** Vice President, Johnson & Johnson*

In my experience, all CEOs in the industry agree there should be more collaboration, but there is a big gap between their intentions and their organisations' implementation.

Most people involved in day-to-day interaction between retailers and manufacturers do not have the weight to make a difference. Their relationships are mostly transactional, based on a common business plan. If you really want to change things, you need the chief customer officer from the manufacturer and chief commercial officer from the retailer to get together, one-to-one, and make some commitments. Meetings of many-to-many won't work: the agenda will become dominated by short-term objectives around price and promotion.

Then there are internal barriers. If a retailer's business development team makes friendly overtures to a manufacturer about collaboration, you can bet the commercial team knows nothing about it, and still negotiate on price.

We need new skills. There is no common outlook across business that see the value in collaboration. A training programme cutting across commercial, marketing, HR, merchandising and business development could introduce some common ground.

Also, there is still too much focus on product, and not enough on services and experience. To win we need to go to about 80/20 product to service. That's a big change.

Negotiation is part of life, but we also need something akin to a start-up culture: small teams that can work across traditional boundaries and entrenched organisational practices, but still with a commercial way of thinking. The CEO should create small working groups that report back every six months, not a large project programme that takes two years. Gradually, success will spread, and the culture will change.

Next steps and conclusion

Even those convinced of the need for change can struggle to understand what to do next. The industry is awash with commentary and advice telling retailers and consumer goods manufacturers what they should do. But in this paper, industry executives share their experience from real collaboration projects. Here are five of their practical ideas to move Innovation in Collaboration forwards:

1. Qualify and select the trading-partner(s) with best cultural fit and trusted relationships to accelerate innovation in collaboration.
2. Establish top-down joint executive commitment to innovate in collaboration, with longer-term mutual profitable growth ambitions.
3. Assemble mutual (cross-functional) leadership-teams, that have the right spirit and belief to gain the trust of the collaboration partners and to demonstrate joint value.
4. Kick-off with a joint (facilitated) session to define the common vision, mutual value objectives and metrics, ways to innovate services and experiences beyond products, collaboration roadmap planning and governance-cadence.
5. Launch and execute via short-cyclic value-sprints ('test and learn') and monthly scorecards, with tangible value-delivery in the context of the agreed multi-year ambition.

Whoever commands consumers' attention and nurtures habit-forming relationships with them will succeed as the 21st century progresses. Whether that group includes the current leaders in consumer industries will depend on how they innovate in collaboration.

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About
The Consumer Goods Forum

The Consumer Goods Forum (CGF) is a global, parity-based industry network that is driven by its members to encourage the global adoption of practices and standards that serves the consumer goods industry worldwide. It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of EUR 3.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises more than 50 manufacturer and retailer CEOs.

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