strategy+business

ISSUE 79 SUMMER 2015

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BY NIKHIL BHANDARE, PALI TRIPATHI, AND APARAJITA KAPOOR

REPRINT 00326

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Consumer packaged goods (CPG) companies and retailers are natural allies. They have many of the same objectives — increased sales, cost savings, optimized processes and systems, and happy customers — and already work together in many parts of the world. But in emerging economies, such collaboration has yet to take off. In a recent survey of 500 leading CPG firms and retailers in India, Strategy& and the Federation of Indian Chambers of Commerce and Industry found that although 91 percent of respondents had participated in at least one collaboration initiative, most of these ventures were one-offs rather than sustained relationships. Only 15 to 20 percent of respondents reported that these collaborative projects had met their objectives.

It's a huge lost opportunity. Across Asia, Latin America, and, increasingly, Africa, sales channels are proliferating, demographics are shifting, and individuals are gaining greater access to online information about companies and their products. These trends have taken their toll on revenue growth and profits. In India, for example, sales growth has leveled off since 2010; operating margins in both the CPG and retail industries are holding steady at best. Working alone, frankly, is not really working.

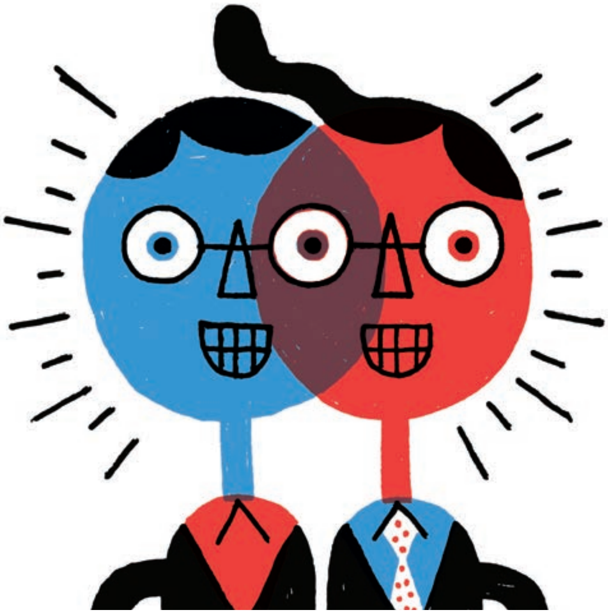
Collaboration, however, could yield quick wins and short-term benefits — and could ultimately transform the complex and fragmented consumer landscapes of many emerging economies into more sustainable, more efficient business environments. Even limited cases of collaboration between CPG companies and retailers have led to positive, enduring industry-level changes. In 2007, consumer giant Unilever joined forces with Migros, one of Turkey's largest retailers. Through an in-store survey, the firms learned that shoppers perceived hair conditioner as unnecessary and expensive. Unilever and Migros set up price promotions and reorganized shelf space to put conditioners next to shampoos, encouraging shoppers to view conditioner as an essential companion product. Migros's overall hair conditioner revenue grew by 25 percent, and Unilever's by 36 percent.

When collaboration expands to include the automated sharing of point-of-sale (POS) data, the results can be even more dramatic. In 2012, Godrej Consumer Products of India set up electronic data interchange (EDI) interfaces to automate the exchange of such data with retailers. The company reported that revenues earned through these trade channels grew 28 percent during the second half of that year.

Although the benefits may seem obvious, setting up and sustaining these partnerships is difficult in practice. To make the process more manageable, CPG companies and retailers need to create the circumstances that will enable effective collaboration, and to establish robust and transparent systems that allow collaboration to endure. Of course, none of that will matter if both sides cannot see at the outset why they should be open with each other. This is no small matter: Lack of trust was the leading cause reported by our survey respondents of their firms' avoiding or terminating collaborative initiatives.

That's why the most significant collaborations are deliberately designed to foster trust, often by tackling daunting challenges — and demonstrating what each side can gain. For example, although retailers typically view e-commerce as a competing channel, it can also boost in-store trade if it's designed to do so. Consider the "bloggers club" collaboration between Indian electronics retailer Croma and Toronto-based e-book publisher/tablet maker Kobo. This club invites Indian bloggers to post reviews of Croma products and outlets. It is designed to forestall complaints, provide customer support, and promote Croma through contests for Kobo merchandise.

The use of real-time POS data, in particular, can reshape how CPG and retail companies make decisions. A company might use such data to choose where to expand activity, or to manage product availability in a different way so that consumers are more likely to find the products they want in their local community. Better access to data from inventory tracking and demand planning can help remove bottlenecks in the supply chain, di-



rect R&D investment, improve marketing, and maximize supply chain efficiency, all of which work toward increasing profits for both manufacturer and retailer.

Data-driven collaboration often includes sharing insights on market trends and consumer buying behavior. Our survey respondents said such sharing leads to better idea generation involving products and trade promotions, savvier use of e-commerce platforms, and more effective workplace management. The most useful technologies for gathering this data are those that enable direct interaction with consumers: customer relationship management systems, Web 3.0 (which uses natural language search, data mining, and artificial intelligence technologies), online applications such as digital media campaigns, and contests on social networking sites such as Facebook.

Collaboration on demand planning enables CPG firms and retailers to set realistic targets, meet market demand, and minimize stockouts. For example, when one U.K. retailer and a global market leader in oral care initiated a joint business planning pilot several years ago, they took certain steps to foster their relationship. The enterprises' leadership teams met monthly to discuss short- and long-term opportunities. They reviewed the performance against forecasts, planned the next month's assignments and developed new forecasts, and agreed on changes such as promotions. The initiative has led to improved delivery rates, increased on-shelf availability, new targeted promotions, better margins, reductions in inventory levels, and streamlined agreement on other collaborative initiatives.

Finally, co-branded advertisements enable CPG firms and retailers to visibly market products together. For instance, Indian e-commerce retailer Flipkart and Motorola recently splashed marketing campaigns across television and print media for the joint launch of the Moto G phone. Collaborative advertising may be extended to include distributors as well: Apple in India co-brands its iPhone advertisements with pan-India distributors Redington and Ingram Micro. By outsourcing its advertising this way, Apple saves on costs and engages more actively with distributors. The distributors in turn benefit from association with Apple's brand along with the higher margins they can earn on its smartphones.

If your company is considering a collaboration initiative, this may all seem daunting. But if both you and your partner have the right mind-set and process, collaboration can be successful. The foundation of any partnership has to be a shared vision of opportunities and challenges. The CPG company and retailer need to lock in specific agreements and expectations about targets, responsibilities, and accountabilities at the outset. A retailer, for instance, would likely be unwilling to share category-level data with a CPG firm unless the firm promised something in return, such as assistance in optimizing the retailer's product mix to increase category sales.

Both companies need to find sponsors at the top leadership level. CEO and chairman–level endorsement is a key element, positioning you and your partner company to achieve common strategic goals and establish accountability. Further down the hierarchy, you'll need to set up cross-functional teams, led by a key account manager. These teams could be organization-specific or cross-organizational, depending on the depth of the collaborative relationship. Members should come from the supply chain, logistics, marketing, and IT functions. If you are pursuing multiple initiatives with a target partner, to avoid ambiguous reporting lines or conflicting commitments, ensure that each initiative has a clear set of owners and a governance body, such as a steering committee or a higher-level council comprising CEOs of the two partners plus key members from both sides.

Illustration by Benoit Tardif

Wherever possible, set up common processes and technologies, with the goal of seamless integration, the incorporation of mobile devices, and a shared view of data. These can include common IT systems and back-end processes such as robust inventory tracking systems, to streamline the order-flow process and manage distribution information. You may also wish to align other systems such as those dedicated to billing, labeling, and EDI to enable real-time updates, the sharing of financial data, and the cross-management of logistics.

The collaboration can now begin, but the work is far from over. It is critical that both companies be able to track and measure progress as the project unfolds, using key performance indicators established by a joint team. Link them to performance of the joint account team members, so they serve as incentives for variable pay.

You'll also need to ensure that you have the right talent in place as the partnership activities progress. In India, CPG manufacturing companies such as Coca-Cola, Dabur, Hindustan Unilever, ITC, and Marico have heavily invested in developing programs to help traditional retailers train their employees in specialized skills, such as operating credit card machines, maintaining inventory logs, and creating attractive merchandise displays. The goal is to create a dialogue with traditional stores, which make up 90 percent of India's retail landscape. Thanks to such initiatives, these CPG companies have reached thousands of traditional retailers throughout the country. Intermediaries such as distributors, systems integrators, and resellers can also play a role in training and overseeing the retail staff. Through its Panasonic Partners program, the electronics company Panasonic introduces intermediaries to new products, business opportunities, and special commercial offers. These intermediaries use that knowledge to push sales independently with retailers, enabling Panasonic to build its channel community.

Finally, remember that trust in your relationship is something you will need to continually maintain. The importance of transparency with your partner company and adherence to agreed-on processes should be clear to everyone involved. Building trust should begin with your own organization's behavior, not just what you expect from others. In fact, knowing yourself is a critical part of this process. Many companies are tempted to use collaboration to make up for gaps in their own capabilities. In practice, however, the most successful partnerships build on strengths rather than compensating for weaknesses. The best way to view collaboration is as a joint growth opportunity — a chance to develop more distinctive, stronger capabilities together. +

Reprint No. 00326

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This article is adapted from the authors' Strategy& white paper, "CPG and Retail: Natural Allies in Emerging Economies," Mar. 2015.

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is published by PwC Strategy& LLC.
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