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The Collaboration Game

by Simon Harper, Amit Kapoor, and Marco Kesteloo

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Although an elusive goal, cooperative relationships between retailers and suppliers can be wildly profitable.

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Retailers have historically maintained an adversarial relationship with consumer packaged goods (CPG) companies, their primary suppliers. Negotiations over price, promotional support, and marketing budgets, among other areas of persistent disagreement, often end in damaged relationships and minor gains — only to be renegotiated again the following year. For some buyers, this annual wrangling is seen as an important part of the job — and even as fun. To them, facing down suppliers is a kind of sport.

But if their goal is to work off their competitive juices by mixing it up with suppliers, buyers would be wise to take up tennis instead. As satisfying as old-fashioned haggling may feel, it generally results in very little good as retailers and suppliers overlook the many ways that they could gain from their partnership.

Changing these old habits is not a particularly new aspiration. For more than a decade, retailers and suppliers have tried to learn to collaborate more and to move beyond the old zero-sum games. These initiatives have included assigning "captains" from each side to work with one another on driving category growth and forming industry groups that seek supply chain optimization, such as Efficient Consumer Response or Collaborative Planning, Forecasting, and Replenishment. Yet despite all the hard work, only partial success has been achieved. A recent Booz & Company survey of European retailers and manufacturers found that fewer than 20 percent of respondents were "very satisfied" with the results from their current collaborative initiatives.

Retailer–supplier partnerships have failed primarily because buyers tend to view their value in a limited way: purely as a means to extract lower prices or extra promotional dollars from CPG suppliers in their yearly negotiations. All too often, buyers walk away from a negotiation feeling successful, unaware that their victory may well have been compromised by their failure to address issues that could have much more impact on retailer and supplier profits, such as in-store availability. The shelves still won't be fully stocked and what seemed like a highly profitable day's work is actually only a slightly larger share of a smaller pie.

By contrast, building holistic relationships with selected suppliers across the value chain that can drive both higher revenue and lower costs than the old haggling habits requires collaboration and cross-functional participation. This can be as simple as linking the supplier's consumer insight to the retailer's promotional capabilities. For example, Migros Türk Ticaret AS, one of Turkey's largest supermarket chains, worked with Unilever PLC to use consumer response and store lay-

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out data to increase sales of hair conditioner. Beginning with a survey conducted at an interactive in-store coupon kiosk, Unilever and Migros Türk discovered that shoppers were not buying conditioner for a variety of reasons, for example, because they simply felt they didn't need to (18 percent) or they believed that it was too expensive (12 percent). With that knowledge in hand, Migros Türk and Unilever tweaked their sales program, increasing price promotions and reallocating shelf space so that conditioner and shampoo were sold together in hopes that conditioner would be established as a necessity in the shoppers' minds. As a result of this campaign, Migros Türk's overall conditioner revenue increased by 25 percent and the chain's sales of Unilever conditioner grew by 36 percent.

In addition, there is a wide range of supplier-related processes that can be improved by more collaborative retailer–supplier relationships, including the way promotions are planned and executed, demand forecasting, and stock replenishment. One of the best sources of information for improving these processes is the retailer's point of sale (POS) data. For instance, by examining POS data to identify purchasing patterns at certain Tesco PLC supermarkets, Kellogg Company found that most of its out-of-stocks at the U.K. retailer occurred midweek, in the afternoon. Consequently, Kellogg adjusted its shipping schedules and, in the process, helped Tesco to recapture more than £2 million (US$3.4 million) in lost sales and to improve customer satisfaction. In a similar initiative, Kraft Foods Inc. used U.K. food retailer Sainsbury's Supermarkets Ltd.'s POS data to improve in-store availability of cheeses during promotional periods. The accuracy of forecasted returns from promotions increased by 20 percent, reducing the risk of both under- and overstocking.

Finally, significant cost reduction is also possible through collaboration primarily from more efficient distribution, streamlined inventory, increased product availability, and improved merchandising operations. For example, Alliance Boots PLC, a large U.K. cosmetics chain, working with a leading supplier of hair accessories, came up with a system to simultaneously cut labor costs and improve the supplier's displays. By designing an intuitive, color-coded product display system, the retailer cut set-up times to about 15 minutes from an hour and reduced overall store rebuilds from eight weeks to two weeks; this faster path to installing and changing promotional campaigns helped Boots boost sales of the supplier's hair accessories by double digits in the first year alone.

Despite the promise of collaboration, few retailers have succeeded in creating such partnerships with their suppliers. It is not difficult to find pockets of excellence within a given retailer–supplier relationship, such as buyers who work diligently on promotional planning, but these tend to be isolated successes — more like pilot programs than ongoing, established partnerships. Most retailers have found it difficult to expand successful pilot programs into a broader, strategic agenda for deeper supplier collaboration, largely because of the challenge involved in learning to work cross-functionally.

Nevertheless, this challenge can be met, and broad-based, holistic collaboration between retailers and suppliers is possible if careful attention is paid to how the relationship is structured. The following key guidelines can make all the difference in undertaking this task:

1. Generate a full basket of possibilities, but focus on a few prioritized opportunities that are most important to both businesses. Think holistically about revenue and cost, and challenge current ways of working and operating procedures in order to produce as many potential avenues to improvement as possible.
2. Establish an open dialogue, but make sure that the terms of all agreements on targets, responsibilities, and accountability are established up front and explicitly defined.
3. Create transparency by openly sharing information about benefits and costs, but build in appropriate confidentiality measures based on a clear understanding of the areas each party wants to keep off limits.
4. Retailers should set both short- and long-term agendas with partnering suppliers to capture value quickly, but still pursue the big ideas.
5. Gain top level support, but stay focused on execution. Collaboration is less a matter of what is agreed in the boardroom than what is actually done in the warehouse and at the shelf.
6. Although it is valuable to be more open with all suppliers, buyers should choose collaboration partners wisely. Given that a collaborative approach is more resource intensive and requires more cross-functional engagement than traditional relationships, supplier partners should be selected based on criteria that reflect the retailers' strategic aspirations and demonstrate a serious interest in building a deeper relationship.

After many false starts, it's tempting to dismiss retailer–supplier collaboration as an idea that looks good on paper but that is nearly impossible in practice. Nonetheless, both sides should look beyond this common misconception. Trust is a key ingredient: Once suppliers feel certain that it isn't just another negotiating trick, many of them are keen to drive such strategic partnerships forward. As with any successful commercial partnership, it all comes down to ensuring that both sides gain from the venture. +

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