

Collaborating for competitive advantage

By Jaume Ferrer and Olivier Vidal

Recent merger and acquisition activity has underlined how the European retail and food consumer packaged goods industries continue to consolidate around a pan-European model. A recent study carried out for the European Logistics Association by Accenture and two leading European Universities—Insead and Technische Universität Darmstadt—has projected that, within the next three to seven years, the European market will be dominated by a small number of strong pan-European players, a forecast with which the majority of both manufacturers and retailers appear to concur.

Collaboration can fill the value gap

Those same manufacturers and retailers are, however, fast coming to realize that the economies of scale resulting from consolidation are not, on their own, sufficient to generate sustained competitive advantage. For this reason, industry leaders increasingly are focused on collaborating across their supply chains and on overcoming the very significant hurdles to that collaboration.

These pioneers believe that increased focus must be brought to bear on a number of key areas including:

- Assortment rationalization
- Consumer focused promotions
- Reduced shelf replenishment
- Inventory
- Transportation
- Production
- Materials
- Administration costs

Moreover, they already are considering unprecedented collaboration between retailers and manufacturers through such initiatives as the exchange of point of sale information, shared promotional calendars and joint forecasting.

Advanced collaboration is only now taking off

How far down the collaboration road have European companies gone? The joint study confirmed that, while most companies are well beyond "piloting" with basic collaboration initiatives, the more advanced collaboration techniques, which coincidentally offer the greatest potential competitive advantage, are only just beginning to take off.

Thus, at the basic level, vendor managed inventory and continuous replenishment programs now account for more than 30 percent of sales to European hypermarket and supermarket chains in certain specific product categories. Similarly, electronic data interchange now accounts for a significant proportion of all message exchanges covering invoices, orders and inventory, while basic category management techniques are increasingly commonplace. With these basic techniques well known and easily copied, leading players argue that they must be rolled out as fast, with as many additional partners and in as many countries as possible. Even then, they increasingly are seen as minimum requirements for successful operation rather than as a source of significant competitive advantage.

That advantage will come only from more advanced techniques such as collaborative planning, forecasting and replenishment which are only now going into pilot testing. Henkel Europe program leader Esteban Garriga sees "Collaborative planning, forecasting and replenishment as a strategic priority . . . adding the joint longer term planning dimension to the short term replenishment focus of continuous replenishment program and vendor managed inventory." Similarly Elidda Fabergé Spain Supply Chain Director José Luis Galian said he is planning to adopt "More advanced collaboration strategies—for example point of sale-driven promotions, collaborative planning, forecasting and replenishment—and extending existing collaboration techniques to more clients."

If manufacturers are leading the development of collaborative planning, forecasting and replenishment, it is retailers who

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are most likely to benefit in the shorter term. The manufacturer must wait until collaborative planning, forecasting and replenishment-driven sales represent more than 40% of the volume in a particular production facility for a real pay-off. Most retailers will have to follow rather than lead, simply because of the difficulties of initiating collaboration across a wide diversity of categories. However UK supermarket chain Tesco has bucked this trend by building its own Collaborative Planning and point of sale tracking capability which it offers to suppliers through the Internet.

Overcoming barriers to collaboration

Meanwhile advanced techniques such as the systematic exchange of point of sale information still represent a very small proportion of industry sales, in turn ensuring that ongoing joint promotional planning and monitoring are still the exception, rather than the rule. Three key enablers will help overcome barriers to collaboration.

- **Agreed standards and protocols** for the exchange of a much broader range of information than conventional electronic data interchange.
- **Development and acceptance of aligned data structures** including, for example, standard product codings and price and promotional data structures. These structures have the potential to take tremendous administrative costs out of the value chain, while at the same time adding clarity, retaining flexibility and allowing the introduction of higher degrees of automation.
- **Focused organisations.** Companies are in agreement that, without focused organizations, the benefits offered by the collaborative model will not materialize.

Leading manufacturers, in particular, are meeting this challenge by restructuring to allow segmentation of the customer base according to different collaboration "menus." Multifunctional teams incorporating supply chain, marketing, sales, information technology and administrative specialists can be dedicated to such initiatives as category management, collaborative planning, forecasting and replenishment, vendor managed inventory and electronic data interchange, and can be tailored to the characteristics of each customer cluster. Internal processes and information technology must also be adapted to support the needs of collaborative processes that also involve the deployment of new roles, skills and rewards. With manufacturers clearly leading such initiatives, there is an urgent need for retailers to implement similar realignment strategies.

Collaboration requires traditional adversaries to set aside their former differences. In the future, retailers, suppliers and logistics companies will become intimately involved in decisions that affect each other's bottom-line performance. Significant financial, strategic and operational data will be shared as decisions are made by teams whose members have often previously been on opposite sides of the negotiating table. The fact that leading players are willing to go this far is itself an indication of the level of potential benefits they anticipate from advanced collaborative techniques.

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