

A photograph of a grocery store aisle. In the foreground, a man and a woman are pushing a shopping cart filled with groceries. The woman is smiling. In the background, another person is visible near a refrigerated display case. A large blue diagonal graphic is overlaid on the right side of the image.

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# Next-Generation Collaboration: The New Frontier for Shopper Value and Industry Growth

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# Executive Summary

Amid the fast and sweeping change that is transforming the retail and consumer goods marketplace, traditional industry players are struggling to keep up. In fact, many are already on the sidelines, watching their historically loyal shoppers be tempted by more choices than ever before and influenced by new channels of interaction and the offers of new entrants.

## What can retailers and suppliers do to stay in the game?

At Accenture, we believe the answer lies in redefining the rules of play, forming an integrated view of the opportunities and challenges before them, and then pushing the boundaries of collaboration to unprecedented levels. Our perspective builds on the recent Trading Partner Alliance work of the Food Marketing Institute (FMI) and the Grocery Manufacturing Association (GMA), which specifies some of the key elements required to make collaboration successful. These include maintaining a focus on shoppers, connecting the businesses of industry partners, preparing people in the organizations for the new world, and truly sharing the supply chain.

We believe companies now have the opportunity—and, increasingly, the obligation—to extend these collaboration concepts beyond forecasting, executive top to tops, and quarterly sharing of business plans. Within the new paradigm of collaboration we envision, retailers and suppliers will embrace systemic change that continually unlocks new value that can, in turn, be reinvested to better meet shopper needs. And they will adopt what we call a “virtually vertical” shopper-led approach to collaboration that is “always on” and transcends the ever-evolving path-to-purchase. As described in the following pages, this approach:

- Integrates outcome-based views of joint business practices to optimally serve the shopper.
- Spans the value chain (beyond just supply chain) to capture mutually beneficial and potentially lucrative demand-side opportunities in areas such as product development, marketing and promotions, and channel operations.

- Is guided by a comprehensive blueprint that operationalizes collaboration through unified strategic business planning, joint partner capabilities and shared foundational platforms that enable continuous feedback, insight and program improvement.

- Introduces tactics, such as a “clean room” concept, to create an integrated view of collaboration opportunities and maintain a path to collaboration success.

We believe traditional industry players have no choice but to embrace such fundamentally new ways of thinking and working together. If they don't, they will struggle with issues such as excess and incorrect inventories, ineffective product development, irrelevant assortment, saturated spaces, and off-target promotional and marketing investments.

While establishing the type of collaboration that is required today will not be easy, the pay-off is simply too large and too important to ignore. With game-changing collaboration, an entirely new scenario will emerge—a scenario in which manufacturers and retailers work together to more effectively tailor innovation, drive demand, manage supply and assure execution. Their success will be measured in hundreds of billions of dollars of industry value. More importantly, it will be evident in their ability to offer an integrated shopper experience that strengthens the relationships with shoppers that they've worked so hard to create.

# A New Reality, Characterized by Disruption and Continual Change

A number of trends are converging to create a new market reality for consumer goods companies and retailers (see sidebar **Accelerating Market Realities**).

Product life cycles have grown shorter. Store sizes have grown smaller. Retail competition has intensified—driven largely by new entrants. And distribution channels, as well as the pool of global suppliers, have proliferated.

Perhaps most significant is the growing and unpredictable demand among a more fragmented base of shoppers for new products, channels and personalized services. Shoppers' preferences are evolving at a fast pace. So is their reliance on social networks as channels of massive peer interaction and influence, their adoption of mobile and smart technologies, and their desire for price transparency and information—typically through online channels—that will help them with their purchasing decisions. Underscoring this point, a recent Accenture, comScore and dunnhumbyUSA study revealed that shoppers' online experiences with consumer packaged goods brands influences 1 to 35 percent of total in-store brand sales in the United States.<sup>1</sup> As shoppers' adoption of digital technologies and social media continues to grow, so will their desire for "super-connectedness," their knowledge of products and competitors' promotions, and their expectation for on-demand access and full engagement.

These trends present significant opportunities for traditional retailers and manufacturers to enhance shopper engagement. But they also pose considerable challenges and pave the way for new entrants, like Groupon, to appear one day and become the fastest-growing company in US history overnight. Whether it's Groupon's new approach to promoting deals, AmazonFresh's new use of channels, Shopkick's new loyalty solutions, or Tesco's new access model that enables

mobile shopping in subway stations, industry innovations are being spurred by shopper expectations that are constantly evolving and forever changing the path to purchase.

It's easy to understand why less traditional players are attracted to the space that traditional retailers and suppliers have owned for years. It's a new frontier, characterized by unprecedented and highly dynamic opportunities to engage with, entice, influence and delight the shopper. The risk that traditional manufacturers and retailers will lose control of the shopper relationships they've enjoyed for years is very real. In response to this threat, they are investing more in areas such as new product innovation and development, marketing, supply chain management and customer service. However, the industry is very different than it was only a decade ago (see sidebar **Slowing Industry Growth**). In almost every food, beverage and personal care category, the consumer price index increased at a greater rate than actual dollar growth from 2006 to 2011. From this, one can infer little volume growth. The slowing industry growth trends suggest that the opportunity for retailers and manufacturers does not lie in increasing the size of the overall consumables landscape, but rather in optimizing and extending their current share of the existing market.

New and innovative entrants are making their move. If traditional players are to retain their control of shopper relationships, they, too, must enter the new frontier. This means they must become smarter at collaboration, simpler and more agile in the way they work, faster in how they make decisions, and more keenly focused on the shoppers' interests. They need to adopt an entirely new model for these new times—and they need to do it today.

## Accelerating Market Realities

- 65 percent of all Americans are on social networks.<sup>2</sup>
- New entrants are redefining path-to-purchase (Amazon, Redbox, Shopkick, Groupon).
- eCommerce and mobility are becoming critical channels: Online purchases of consumables will more than double to \$25 billion by 2014.<sup>3</sup>
- Price transparency abounds: 20 million downloads of the ShopSavvy app in just a couple of years.<sup>4</sup>
- Stores' sizes are decreasing (56 percent reduction in square footage from 2005 to 2010), while shopper touchpoints are increasing.<sup>5</sup>

## Slowing Industry Growth

- Growth rates through 2015 are low: 2.7 percent for retail and 2.8 percent for consumer goods.<sup>6</sup>
- Food and beverage prices have increased at a rate greater than total household expenditures since 2006.<sup>7</sup>
- Consumers are spending less; savings rates grew from 2.3 percent in 2006 to 4.8 percent in 2010.<sup>8</sup>
- In 2010, the average pantry held 369 SKUs, down from an average of 404 in 2007.<sup>9</sup>

# Change Means Challenging the Status Quo

Today, each party in the retailer-supplier relationship tends to have its own view of the shopper, as well as the associated value chain. Each looks to maximize its own returns. This mindset typically results in lower, not higher, total sales. And the costs associated with serving shoppers generate a higher cost of goods sold (COGS) and selling, general and administrative (SG&A) expenses for both companies. This mindset also results in bad behaviors, such as managing something as critical as the exchange of information between trading partners as a profit center, rather than a necessity for good business. Change means challenging this status quo.

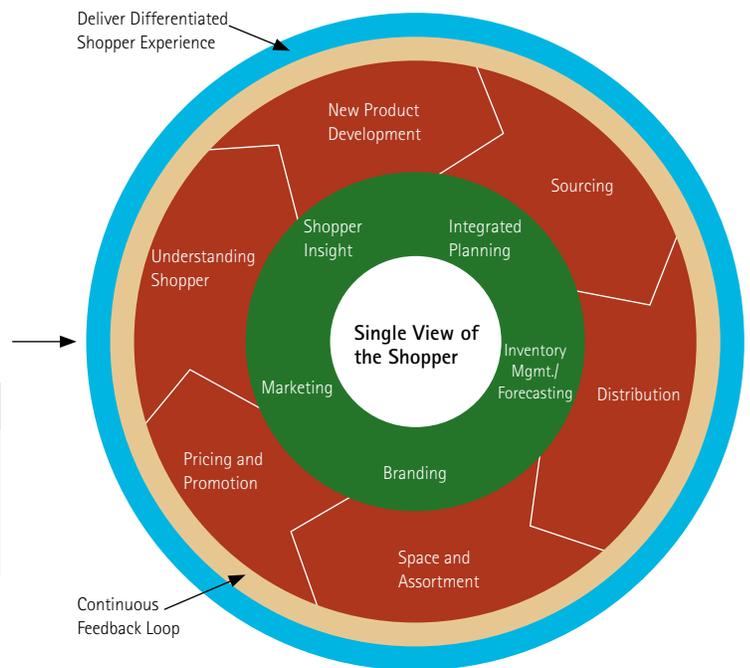
To establish practical connections all along the value chain, companies need to change how they think about their shoppers and integrate processes across functions to seamlessly serve them. They need to do more than just talk about shopper-centricity; they have to organize as one company and, in effect, create a "virtually vertical organization." This concept, illustrated in Figure 1, requires retailers and suppliers to ask themselves: If we thought of our organizations as a joint entity, what are all the things we would start doing, stop doing or continue doing to optimize our shoppers' experiences?

**Figure 1. The Virtually Vertical Organization**

From a **compromised** shopper experience...



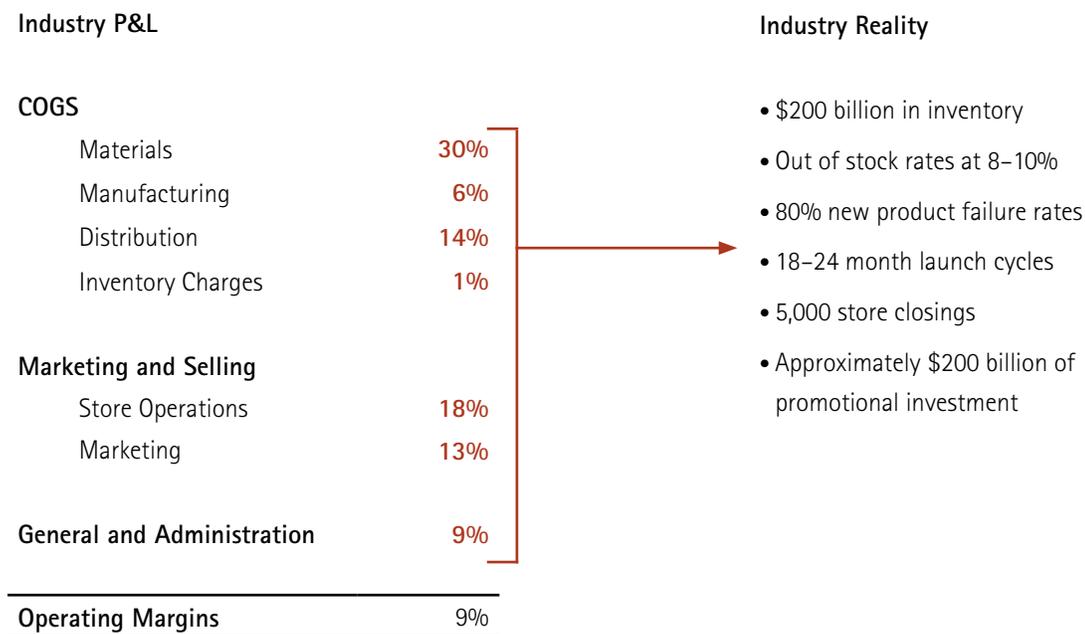
...to an **optimized** shopper experience



Creating a virtually vertical organization requires each participating company to take a hard look in the mirror to assess the change that will be needed across the value chain. Accenture has done just that, from an industry-wide perspective. The resulting end-to-end view of the virtually vertical value chain illuminates the integrated pools across the value chain, as well as the specific drivers of waste and inefficiency.

The North American retail and consumer goods industry is a \$1.3 trillion market that generates integrated profits on the order of \$122 billion.<sup>10</sup> Figure 2 presents a breakdown of the integrated industry cost structure.

**Figure 2. The Virtually Vertical View**



Source: Accenture analysis and U.S. Census Bureau, 2011. Addressable U.S. retail market includes: Food & Beverage, Home & Personal Care and General Merchandise (excluding Department Stores). Addressable U.S. wholesale market includes: Grocery & Related Products; Beer, Wine & Distilled Alcohol; Drug & Druggists Sundries.

Taking a deeper look into the operating truths of the packaged goods retailing industry reveals a number of specific issues that are reinforcing the cost structure. At the same time, these truths clearly identify opportunities for better serving the shopper with products they want, at a competitive price and with comfortable margins.

- **Excess and incorrect inventory.** Industry-wide, product inventory levels average more than 100 days, tying up \$200 billion across retailers and manufacturers.<sup>11</sup> In addition, the vertical costs to manage and distribute inventory is over 50 percent of total revenues, or approximately \$700 billion.<sup>12</sup> A lack of visibility into real-time product demand and ineffective promotional planning make it difficult to stage product properly and respond to changing shopper buying trends, resulting in out-of-stock rates greater than 8 percent.<sup>13</sup> Excess inventory leads to high carrying costs, price cuts and product lost to spoilage.

- **Ineffective product development.** More than 60 percent of new product revenue is generated by 10 percent of new items.<sup>14</sup> These items often define new category segments and often originate from smaller, new industry entrants. More than half of new products fail to meet first year revenue expectations, and most innovation comes in the form of line extensions and me-too products that rarely excite and delight the shopper.<sup>15</sup> The high costs of long product development cycles and slotting fees make the situation untenable.

- **Irrelevant assortment.** Despite recent efforts to rationalize and tailor assortments, the center of the store, which generates 73 percent of total store sales and 77 percent of profit, is showing declining growth on a same-store basis.<sup>16</sup> This decline makes it clear that the industry is not meeting shoppers' demands for a more vibrant and relevant set of products tailored to their needs.

- **Saturated space and outlets.** In five of the past 10 years, total store closings have exceeded 5,000; store closings for the coming year are also expected to surpass 5,000.<sup>17</sup> With store operations accounting for 18 percent of vertical industry sales,<sup>18</sup> retailers cannot afford to keep non-productive stores open and are looking for ways to manage the amount of space as a means of differentiation in the multi-channel world.

- **Off-target promotional and marketing investments.** Trade promotion spending averages 15 to 20 percent of manufacturers' sales, and the value of marketing spend across the entire vertical industry is approximately \$200 billion.<sup>19</sup> The returns for the vast majority of these investments are elusive. Our research estimates that less than 5 percent of this investment is actually targeted at the individual shopper level. This is surprising, given the shoppers' demands for tailored needs and offers. Worse yet, promotional efforts have conditioned shoppers to look for deals and trade value for price.

As these truths illustrate, collaborative relationships make good business sense for retailers and suppliers, alike. That is because both groups face common challenges that collaboration can help resolve. And by working together, both groups can identify new opportunities for growth and potential sources of additional value. If not, the telltale signs of a frustrated shopper will continue. Many shoppers are eliminating "non-essentials" and reducing the overall variety of products they purchase. With "quick trip missions" on the rise, shoppers are also more reluctant to browse stores.<sup>20</sup> These factors make new entrants like Amazon such formidable competitors.

# Act Differently: Next-Generation Collaboration

Through its work with leading retailers and manufacturers around the world, Accenture has developed a blueprint that illustrates what a more highly evolved collaboration paradigm might look like. The Accenture blueprint for next-generation collaboration, outlined in Figure 3, is built around three key areas—strategic business planning, joint partner capabilities and foundational platforms—in which manufacturers and retailers need to engage together. The complete blueprint includes methods, best practices and approaches for building an integrated and shopper-centric approach to collaboration. These elements, together, help to connect collaboration “strategy” to “execution.”

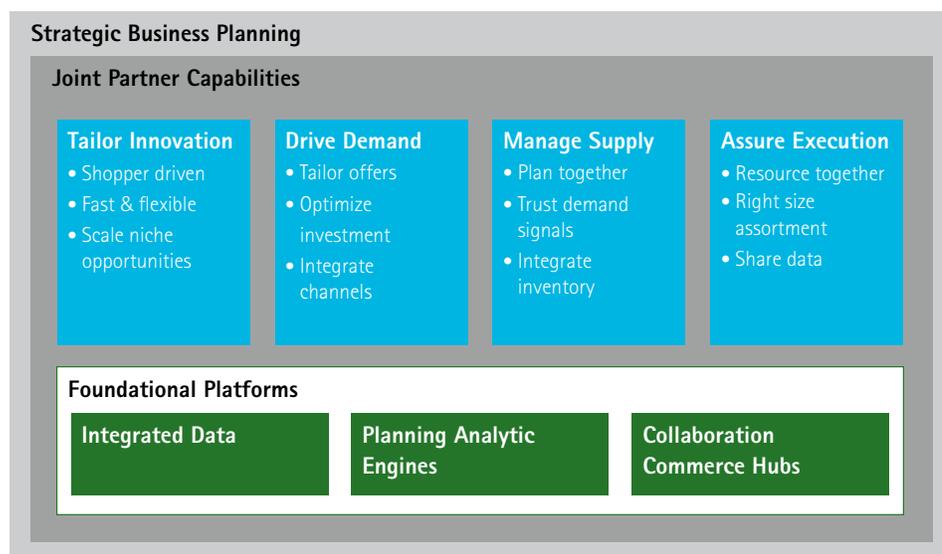
The four joint partner capabilities, which are defined by and aligned to an overarching unified strategic business plan, represent those areas in which retailers and suppliers can come together to unlock value and strengthen shopper engagement. They include:

- **Tailor innovation** by jointly developing products that will cater to the needs of a more fragmented set of shoppers for whom “mega-brands” hold less appeal. Rather than fill shelves with undifferentiated products and line extensions that cannibalize sales of existing products, retailers and suppliers need to focus on the rapid and flexible introduction of new products that are shopper-driven and create scalable demand within smaller markets. Collaboration tools

and collaborative business practices make it possible for both parties to bring together key shopper information and best practices to accelerate the creation and launch of such exciting new products.

For example, Best Buy and Toshiba combined their shopper insights to create the first child-centric laptop, the Satellite L635 Kids' PC, with unique attributes such as a fingerprint resistant screen, a wipeable keyboard, and an Internet browser that was kid-relevant and secure.<sup>21</sup> And Wal-Mart has partnered with GE to develop and market licensed GE-branded kitchen small appliances.<sup>22</sup> A number of other companies have turned to the shopper directly for input on new products and services. Starbucks embraced this form of “open innovation” with the launch of its mystarbucksidea.com website, through which it has received over 100,000 ideas so far for new products.<sup>23</sup> Dell's decision to sell laptops with the Linux operating system came about from user suggestions posted on the company's IdeaStorm website.<sup>24</sup>

Figure 3. Accenture Blueprint for Next-Generation Collaboration



- **Drive demand** by delivering more tailored promotional offers, optimizing assortments and investments, and integrating channels. The industry no longer serves a single group of shoppers. It now serves highly fragmented groups, each with expectations for having their unique needs met—immediately. Retailers and suppliers must move away from mass promotions, standardized assortments, and untargeted pricing and discounting. The industry has the insight into shoppers and the technology to tailor offerings to sales channels and markets and to attract new shoppers. Additionally, given the rich shopper data that is on hand and the analytic engines available for interpreting the data, retailers and manufacturers can now develop offers that solve shopper problems and address their needs at a granular and holistic level.

The Procter & Gamble Company (P&G) is a leader when it comes to using actionable shopper insights to boost demand of its products. The consumer goods giant invites shoppers to one of its 19 virtual solutions centers—which employ 3D technologies, computer models and life-sized virtual shelf and store simulations—to view and comment on new P&G products just as they might appear in a retail environment. Importantly, P&G shares shoppers' assessments with retail partners so that they can work together to design an in-store experience that will best meet shoppers' needs.<sup>25</sup>

Tesco is another example of a company meeting its shoppers' needs via virtual solutions. The supermarket leader tapped the purchasing potential of South Korea's commuting public by repurposing subway "waiting time" into "shopping time." By establishing life-like virtual shopping centers in subway stations, the company enabled this captive audience to shop with their smart phones by scanning product QR codes presented in visual displays. The purchases were delivered to their homes the same day.<sup>26</sup> More than 600,000 people downloaded the application that enables this virtual shopping experience. And online sales increased 200 percent in just four months.<sup>27</sup>

- **Manage supply** by planning together and integrating inventories to improve in-stock positions and make the right product available for the shopper at the right time. By employing cross-enterprise communications, multi-echelon collaborative planning and more precise tracking technologies, retailers and manufacturers can improve forecast accuracy, inventory visibility and time-phased replenishment. New planning and demand signaling tools enable companies to have greater trust in their demand forecasts, which means they can push inventory through the system with greater confidence and much greater efficiency. Collaboration concepts such as ECR and CPFR are not new, but the most successful examples exhibit new characteristics—namely, benefit sharing or incentive mechanisms that make the opportunity more attractive for both retailers and suppliers.

Consider the case of Lowe's, which engaged in a collaborative forecasting process with one of its largest suppliers that was struggling to provide product on time and damage-free. Lowe's incented the supplier, promising purchasing increases of 30 to 40 percent in exchange for improvement. In less than a year, the initiatives were producing enough benefit that the companies established a joint savings pool based on inventory and cost-to-serve improvements. The savings were re-invested, with the retailer increasing national advertising and the supplier supporting incentives for the retailer's store sales staff.<sup>28</sup> There are other instances in the marketplace where value chain partners integrate their planning process to improve forecast accuracy and reduce volatility. Such partnerships can simplify operations costs associated with transportation, warehousing, manufacturing and the carrying of inventory.

- **Assure execution** by sharing data, right-sizing assortments, and better managing the ever-growing number of distribution points. If large retailers are to keep small, local and more nimble competitors at bay and, at the same time, retain their shoppers, they must extend their focus on shopper-centricity beyond the product offering to the in-store shopping experience. By sharing data and capital investments, retailers and manufacturers can introduce innovative ways to serve the shopper. For example, Amazon is installing lockers at 7-Eleven stores to give its shoppers a new option for package delivery.<sup>29</sup>

Another important component of superior execution involves in-store efficiency. The best collaborative strategies will ultimately fail if retailers are unable to execute "last-mile" activities. Out-of-stock demand-signal sensing technologies, which enable retailers and manufacturers to freely share store-level information, have emerged over the last few years. And more recently, visual recognition technologies have been developed to enable image comparisons between "as-is" product/shelf features and "desired state" visual templates. These advances help ensure that what is in the store and available on the shelf accurately reflects the joint retailer-supplier forecasts and plans. These technologies can also lower labor costs and free in-store labor to focus on new strategies for the store.

The three foundational platforms (see Figure 4) have evolved over the years to now underpin next-generation collaboration. These platforms not only support the activities and processes of the joint capabilities described above, but also enable those capabilities to scale and become sustainable. While many retailers and suppliers may be advanced in their use of certain tools and less proficient in others, those that are leading-edge adopters in all areas will find it easier to achieve the vision of next-generation collaboration.

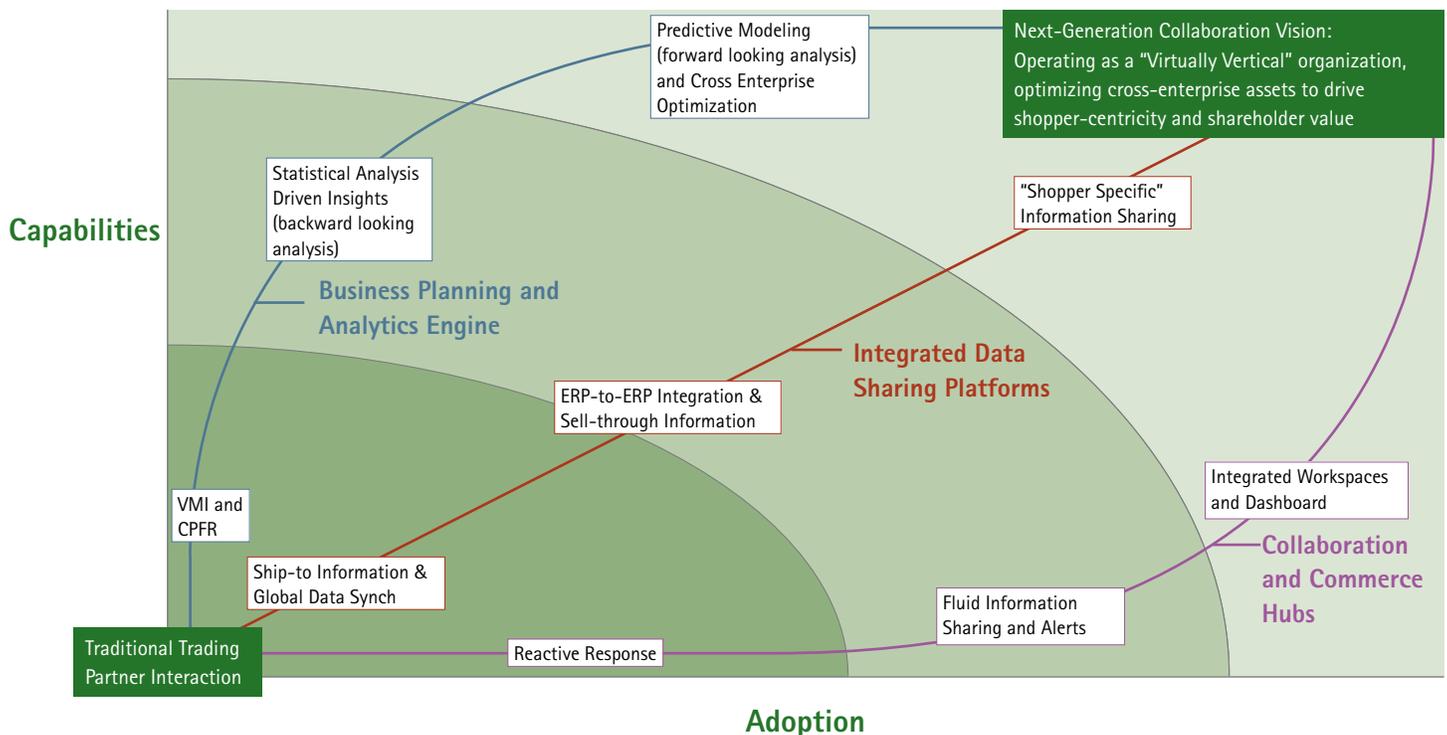
- **Business planning and analytic engines.** The industry continues to invest and build solutions that enable hindsight observations of what has been done versus looking forward and predicting outcomes that will occur. In addition, the tools and investments being made are mirrored across trading partners, rather than being shared jointly to enable more fact-based and real-time analytics. As "intra-enterprise" planning and analytic capabilities advance from traditional reporting to predictive analytics, companies will have the opportunity to apply the same capabilities in an "inter-enterprise" fashion. We are seeing examples of companies applying multi-echelon distribution-optimization models cross-enterprise such that partners are modeling a "joint distribution" network and making joint supply chain decisions regarding inventory placement and transportation routing. We are also seeing examples of companies jointly analyzing

the "mutual" end shopper and leveraging shopper loyalty data in an effort to better innovate products for a particular shopper, thus growing the category.

- **Integrated data sharing platforms.** The industry invests billions of dollars on the sale and repurposing of data that is often stale, slow and less than relevant for the pace at which businesses are moving. It is critical that trading partners and suppliers accelerate efforts to open up the information supply chain, enable a free flow of insights into shopper behaviors, and speed the pace of integration and business decision making that is enabled from them. The recent expansion of Demand Signal Repository companies has marked the beginning of this transformation, but they need to evolve far more rapidly and be far more integrated into core decision making.

- **Collaboration commerce hubs.** Just as businesses have worked to share common processes and technologies within their own business for greater efficiency, so must retailers and manufacturers engage in such sharing between their businesses. This, however, is challenging. "One version of the truth" has become increasingly difficult to define. The industry needs to move to an environment where the supplier and retailer have the same set of information, for the same dimensions, with a common analytical interpretation of the facts. "Serving up" common data and insights will allow the suppliers and retailers to focus on exceptions and meeting their joint business objectives, rather than resolving differences. This will also enable the merchants, who are spread across a very large supply base, to contribute to the collaborative effort in a fashion not possible in the past.

Figure 4. Vision for Value: Next-Generation Collaboration



# Seize the Prize: Create the Value to Invest in Change

Leveraging its research into high performance and functional mastery, as well as its extensive experience in working with clients, Accenture has developed insights into how organizations might tackle the inefficiencies that exist to define a baseline for industry improvement. By applying benchmark improvements around the concepts above, the industry can create value. Fortunately, the emergence of new tools and business practices is finally enabling retailers and suppliers to come together to better serve their shared shoppers. Importantly, these tools and practices are also poised to help collaboration partners achieve significant efficiency gains and generate 2 to 10 percent operating margin improvements

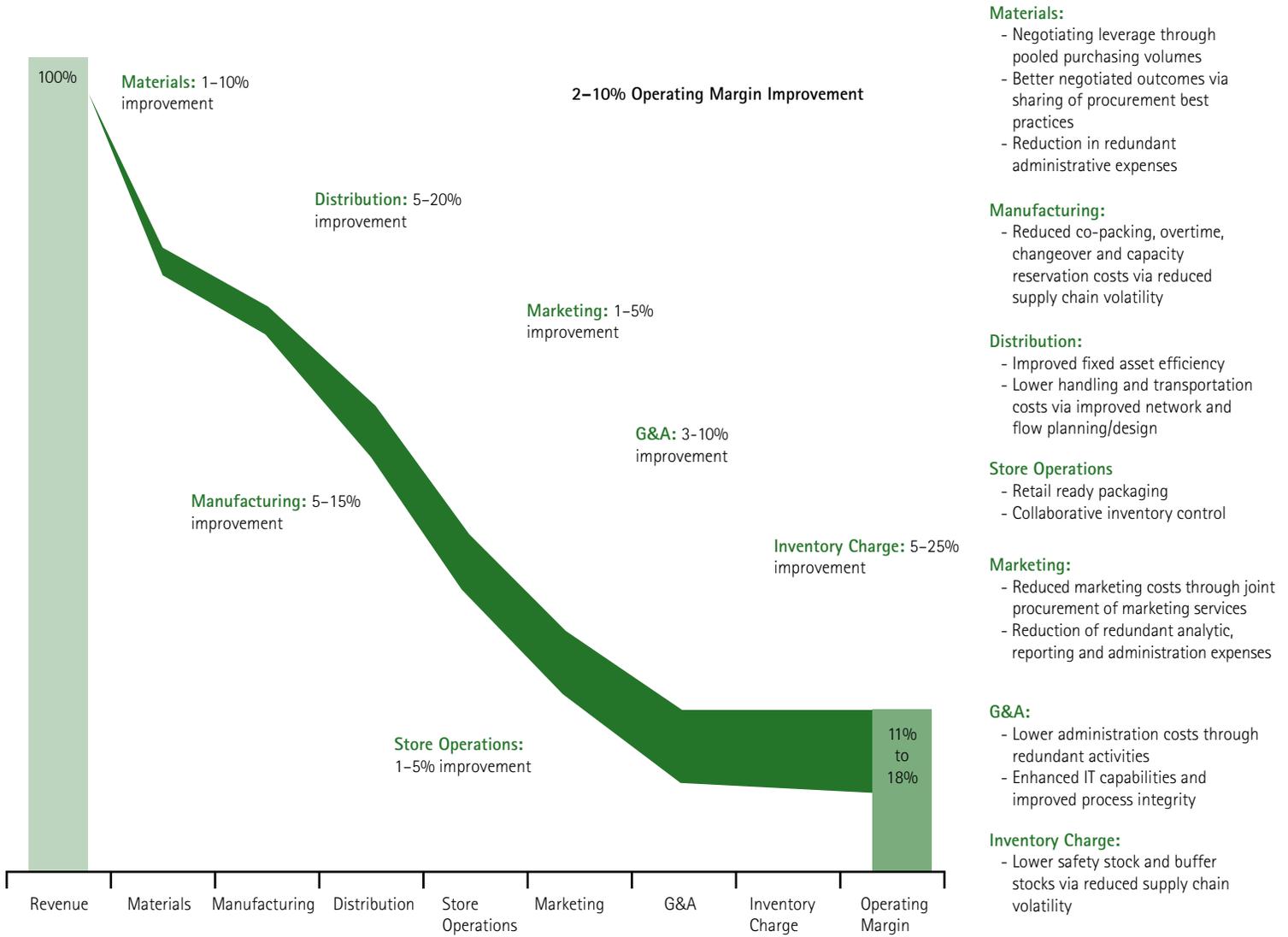
(see sidebar and Figure 5). Combined, these improvements translate into hundreds of billions of dollars of additional value, which the industry can re-invest in programs that will delight existing shoppers and attract new ones.

Importantly, the value of collaboration is not limited just to suppliers. Shoppers benefit through the delivery of more of the products they want, more quickly, and at a potentially lower cost. Retailers benefit, too, by being able to raise store-shelf-stock rates by 5 to 8 percent, reduce inventories by an average of 10 percent, and cut logistics costs by 3 to 4 percent. Perhaps most significantly, in achieving these goals, retailers and suppliers can bolster shopper loyalty, drive more sales and improve their brand reputations.

**Accenture believes the potential first year value of retailer-supplier collaboration could total hundreds of billions of dollars.**

- \$10-50 billion working capital reduction
- \$25-125 billion operating expense reduction
- \$15-90 billion manufacturing and distribution cost reduction
- \$4-20 billion marketing and sales expense reduction

Figure 5. Accenture POV—Outline



- Materials:**
  - Negotiating leverage through pooled purchasing volumes
  - Better negotiated outcomes via sharing of procurement best practices
  - Reduction in redundant administrative expenses
- Manufacturing:**
  - Reduced co-packing, overtime, changeover and capacity reservation costs via reduced supply chain volatility
- Distribution:**
  - Improved fixed asset efficiency
  - Lower handling and transportation costs via improved network and flow planning/design
- Store Operations**
  - Retail ready packaging
  - Collaborative inventory control
- Marketing:**
  - Reduced marketing costs through joint procurement of marketing services
  - Reduction of redundant analytic, reporting and administration expenses
- G&A:**
  - Lower administration costs through redundant activities
  - Enhanced IT capabilities and improved process integrity
- Inventory Charge:**
  - Lower safety stock and buffer stocks via reduced supply chain volatility

Source: Accenture client experience and Accenture Mastery Research—CPG and Retail

# Start Today: Protect Your Most Valuable Asset—Your Shopper!

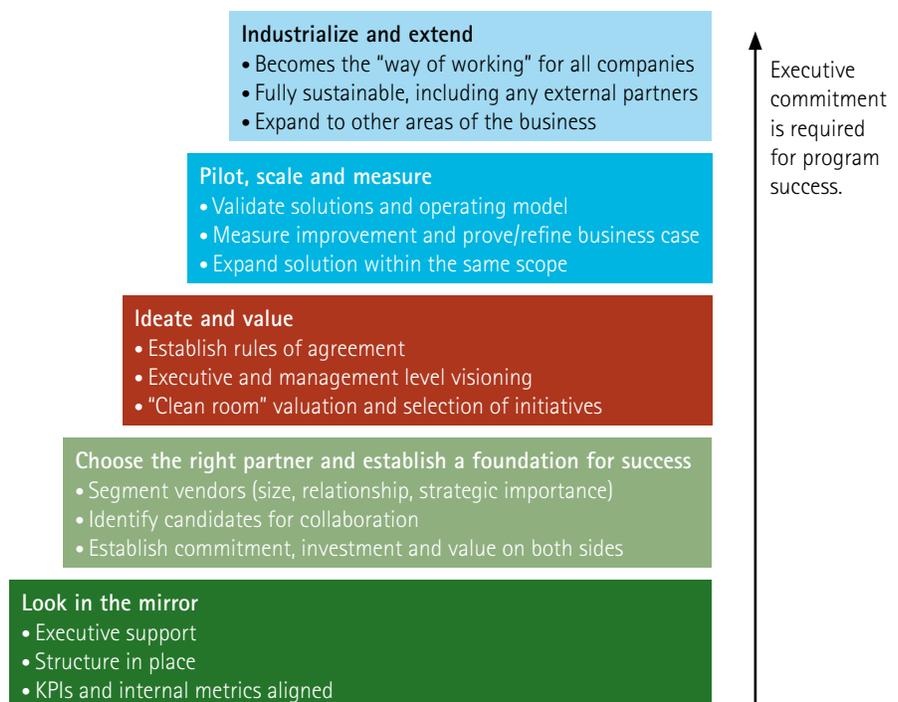
There are many paths retailers and suppliers can take to achieve a heightened state of collaboration. Unfortunately, with these many paths come many opportunities for collaborative efforts to derail. Yet, the complexity of collaboration can be overcome. Joint business planning provides a framework under which retailers and suppliers can collaborate on anything and everything that links the strategy with execution.

At Accenture, we advocate that retailers and suppliers jointly focus on those core activities that will bring the greatest value, commit to a plan, define success—and then go get it. As outlined in Figure 6, before a collaborative agreement is struck, companies should assess their collaborative capabilities to ensure the right structures, key performance indicators and internal metrics are in place

and aligned. Next, the companies should establish the rules of engagement (with a clear articulation of expectations, roles and responsibilities), refine their joint vision, establish a virtual vertical concept and select initial collaborative initiatives. At this stage of program development, we recommend that participants employ a “clean room” tactic, in which an unbiased third-party provider assumes responsibility for setting up the data-sharing environment and data access protocols for each party. Doing so also ensures confidentiality of data and allows companies to overcome the issues of trust that often hinder the momentum of collaboration programs.

When piloting and scaling their joint initiatives in the next stage of program development, participants have the opportunity to assess the success of their initial collaborative solutions and validate their joint operating model. If things are going well, they can expand the scope of the solutions to capture even more value. Executive commitment is critical from the beginning and as companies advance through these stages. This is because with each step, both companies have more at stake. Investments (and returns) become larger. So do expectations for quantifiable outcomes, competitive advantage and lasting success.

Figure 6. Roadmap for Collaboration Success



# Win with a Unified Shopper-Driven Value Chain

While the success of collaboration will be reflected in real performance improvement metrics between trading partners, the ultimate measure of success will be seen in the enhanced relationship with the shopper. Whether this relationship improvement is measured through improved shopper equity, an increase in frequency of trips to a store or in buying a particular brand, improved acceptance of new products, or a better purchase experience, these are the results that need to be focused on to change the game and establish a more trusting—and valuable—relationship.

Read more insights from Accenture at [www.accenture.com/collaboration](http://www.accenture.com/collaboration).

# Endnotes

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