

Digital collaboration between
retailers and manufacturers:
Resolving the collaboration conundrum



High performance. Delivered.

The past few years have seen an inexorable rise in mobile commerce and ever-increasing consumer expectations around convenience, cost and experience.

The smartphone has become the gateway to all commerce—most shoppers invariably use their phones for discovery, research and price comparison leading to practices such as showrooming and reverse showrooming. As such, dynamic and continuous promotion cycles have become the default today. Some retailers and manufacturers have been rejiggering their business and operating models to manage this hyper-competitive digital reality. They are investing in omni-channel presence, increasing the emphasis on customer experience, embedding innovative new digital technologies in the store and reimagining supply chains to cater to new fulfillment methods such as “click and collect.” Emerging economies aside, for the most part, the focus of retail has also shifted from customer acquisition to growing and retaining existing customers. As a result, the need for adopting a customer-centric culture and mindset has never been more important.

On the one hand, this digital infusion has tremendously increased the complexity of retail marketing and retail supply chains; on the other hand, the availability of vast troves of operational and customer data can potentially provide game-changing insights that drive growth and profitability. Fundamental to making that happen, though, is the need for a greater degree of retailer-manufacturer collaboration. In the past, collaboration in areas such as forecasting and inventory management pioneered by leading retailers such as Walmart and Tesco changed the practice of supply chain management. This collaboration imperative is more acute in the omni-channel world, and applies to retailers of all sizes and shapes. Today, nearly every retailer needs to operate and manage multiple sales and service channels while catering to a greater variety of customer segments.

The availability of granular, detailed data is an enormous enabler to a new level of digital collaboration, but the key to making this collaboration a success lies in putting advanced analytics and insights at the center of this collaboration, with a laser focus on understanding the customer. However, even leading retailers and manufacturers have not gone nearly far enough in making this happen. It is not due to a lack of intent—in an Accenture-commissioned study, 75 percent of CPG manufacturers expected improved collaboration with retailers through digital transformation to drive product availability and make the best use of shelf space and trade promotion funds. The challenge lies in a number of real obstacles that should be overcome first in their digital collaboration journey. Identifying these obstacles is the first step.





Obstacles to effective collaboration



Divergent agendas

To date, collaboration between retailers and manufacturers has been limited to a few areas such as merchandising and promotions, and oftentimes is driven by tactical short-term goals. The retailer is always focused on maximizing store profitability and category optimization, while the manufacturer's focus is squarely on its brands. These divergent areas of focus often lead to conflicting agendas.



Lack of trusted data

A lack of trusted data on products, pricing, competitors and purchases often holds back effective collaboration. The reasons are many—inaccurate data capture, inconsistent data sharing formats, idiosyncratic changes to decisions on what to share and what not to share, irregular frequency of data feeds, in-store actions and decisions not reflected in the data, and lack of omni-channel integration. Consequently, retailers and consumer packaged goods (CPG) manufacturers are constrained in their ability to analyze data effectively for spotting growth drivers, identifying operational risks and quality issues early, and responding quickly to competitor actions.



Information asymmetry

Digital technologies and social media have reduced the information asymmetry between the retailer and the consumer, but the same cannot be said of the information asymmetry between retailers and manufacturers. Retailers often do not have credible demand information about new products, while manufacturers lack insight into retailer actions targeting specific customer segments. Similarly, for various reasons—organizational and cultural predominantly—retailers continue to focus primarily on the store even if they have an omni-channel strategy in place. Closed loyalty programs based purely on transactional data also reflect a simplistic view of customer behavior. All of these lead to a decision-making bias overly influenced by incomplete past history and gut feel.

Shallow customer knowledge



While retailers collect a great deal of data about their customers, they still do not know enough about them. Most retailers have little idea on what incentives work with different customer segments, are unable to measure customer lifetime value accurately, do not know who their most valuable customers are and what interests, habits and lifestyle changes are impacting customer decisions. Loyalty programs that are not linked to partner programs, and social media programs run merely to have a token presence on social media also result in a half-baked understanding of customers and ultimately lead to customer stress. On the other hand, online competitors tend to know their customers more intimately. For even consumers who shop in stores, online retailers typically have more up-to-date and accurate data on their shopping preferences, behaviors and needs as they invariably browse through products, prices and reviews online, before setting foot inside a store.

Sluggish new product development (NPD) rollout



Manufacturers invest significantly on NPD expecting retailers to roll out these products across the total market, to recoup their NPD ROI as soon as possible. As omni-channel retail and new fulfillment methods such as “buy online, pick up in store” become the norm, retailers are challenged with distribution of new products. This problem is amplified with the increasingly shorter product life cycles in many consumer durable and lifestyle segments. Improving forecasting accuracy goes so far. Even where there is a strong product/market fit, in the absence of speed and urgency in aligning promotions, distribution, fulfillment and return processes, NPD decisions are suboptimal and margins suffer.

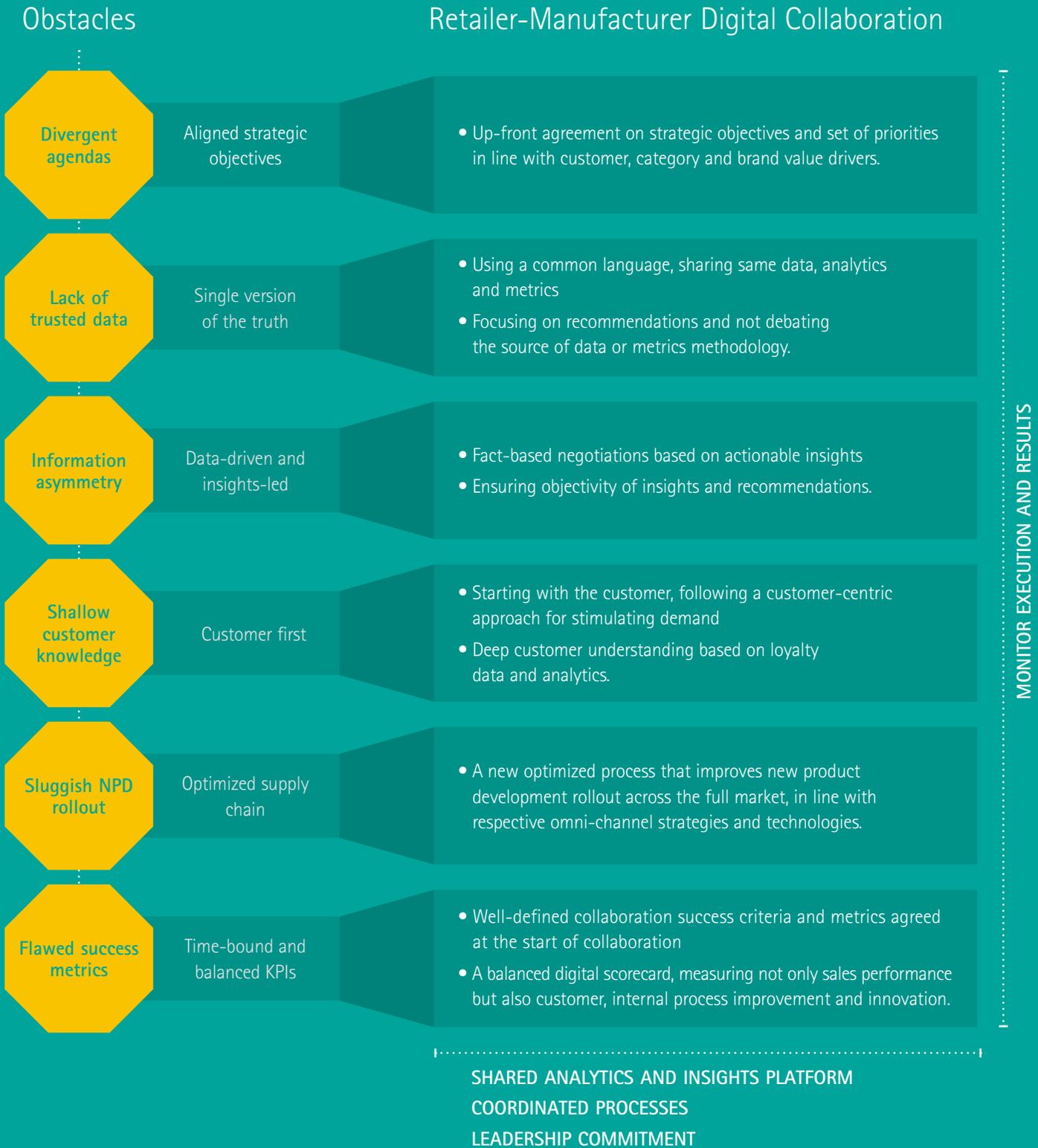
Flawed success metrics



Retailers and manufacturers often do not have clear internal metrics to manage and measure the performance of their digital collaboration initiatives. Traditional key performance indicators (KPIs) tend to be overly sales and volume focused, customer centricity is not measured rigorously, and each channel tends to have its own KPIs that do not integrate the influence of other channels. The challenges with lack of data sharing and trusted data often can be traced to the choice of divergent KPIs. For instance, for a new product launch, the manufacturer may have a preconceived notion about the retailer's degree of commitment to the launch success. In the absence of the right KPI and clear accountability for both partners, they may end up focusing on different things reducing the chances of launch success.

Fostering effective collaboration

Based on our experience, we propose a collaboration framework that can help overcome these obstacles and support sustainable success in collaboration efforts.





Aligned strategic objectives

Retailers and manufacturers must align on broad strategic objectives and commit to a set of priorities focused on achieving these objectives. These objectives could span a gamut of areas—omni-channel strategies, innovation investments in new technologies such as the Internet of Things (IoT) and beacons, shopper-based marketing, trade initiatives, consistency in payment terms, and the like—but it is important that both target the most important levers in the context of different time horizons. Such an alignment will help shift collaboration efforts from a purely short-term operational focus toward long-term value for both parties.

For instance, the “store within a store” concept collaboration between electronics retailers such as Best Buy and electronic manufacturers such as Samsung and Sony has been a significant driver in shaping consumer desires and expectations on big-screen televisions, re-establishing the consumer’s love affair with TVs and massively expanding category sales. In areas such as grocery, the continuing success of discount retailers such as Aldi and Lidl also attest to the importance of a strategic alignment that prioritize welfare of both sides over squeezing suppliers continually on costs. When it comes to digital expansion efforts, retailers should also work more closely with manufacturers in adopting common technologies, ensuring API integration and pooled data. New IoT technologies also require thoughtful collaboration that is centered on truly understanding consumer behavior and possibly even nudging behavior changes—the objective should be not to merely pilot the newest and latest, but to materialize the promise of additional revenue streams.



Single version of the truth

Getting to a “single version of the truth” has always been a bit of a holy grail, but by investing in business processes that emphasize data accuracy, technology systems with seamless interlinkages, and adopting common metrics and intelligent analytics, retailers and manufacturers can move away from debating the validity of the data to actually using the insights for mutual benefit.

For instance, over the last few years, most retailers have learned from Walmart’s successful Retail Link PoS reporting system and begun to share PoS and inventory data with their suppliers. At the same time they need to focus on addressing omni-channel data quality and integration issues. Similarly, for forecasting and demand planning, manufacturers can no longer rely merely on shipment data to a retailer’s distribution center. Accurate daily store-level data should underpin their forecasting processes.

Omni-channel also generates newer types of customer data outside shopping channels—Facebook or Instagram shares, online feedback, and the like. All this data should not sit in retailer and manufacturer silos, but should come together to build a comprehensive profile of customer preferences and buying behavior.



Data-driven and insights-led

Data sharing without an insights-led approach only skews the collaboration relationship one way or the other. Retailers need to invest in advanced analytics that provide a level of granular insight on product performance, promotional performance, shelf performance, item-level profitability, out-of-stock performance, customer switching behavior and other similar metrics in different contexts—for instance, small stores versus large stores, online versus offline, before, during, and after promotions, and in comparison to private-label store brands. Manufacturers, in turn, should help retailers with new insights gleaned by combining retailer data with syndicated data. This is often necessary to understand channel contribution to sales for different brands, mine accurate social media insights, identify store-level retail execution issues, and to provide guidance on product coverage across different stores. With such fact-based collaboration, retailers can successfully execute on new product launches, joint promotions, and reduce out-of-stocks and stock keeping unit (SKU) proliferation, leading to a win-win.



Customer first

While customer acquisition is important, by focusing greater energy on existing customers, retailers and manufacturers can build a sustainable growth trajectory without enduring margin compression due to excessive promotions. With loyalty programs that have been in place for years, adoption of new fulfillment methods such as “click and collect,” in-store digital technologies such as beacons, digital mirrors and fitting rooms, and self-service scanning and payment methods, retailers are able to observe consumers in action in a way that purely online retailers cannot replicate. Leading brands have also started building a more direct relationship with the customer by leveraging social media channels such as Pinterest, customer-facing brand portals, and dedicated store fronts in online retailing channels. The integration of IoT technologies in the product will only enhance this direct customer relationship. This integration provides manufacturers with a degree of visibility into actual consumer behavior and usage that they simply did not have earlier. It is important that retailers and manufacturers use all this customer data to become more customer centric in all dimensions—for better customer segmentation, relevant offer targeting, determining promotion strategies, increasing loyalty and share of wallet, and providing an engaging customer experience.



Time-bound and balanced KPIs

The choice of KPIs need to balance short-term and medium-term goals with longer-term strategic commitments. Undue focus on managing the short term leads to gaming behavior across both parties, and a focus on only the long term can make them oblivious to addressing evolving market dynamics quickly. It is important that these KPIs should be agreed in advance when retailers and manufacturers start on the collaboration journey.

Similarly, metrics should reflect a shared understanding and agreement on store versus digital trade-offs. In the omni-channel world, new KPIs are required that go beyond measuring direct sales—metrics such as footfall conversion, average time spent in store, channel contribution to traffic and sales, repeat purchase across different channels, customer satisfaction, and customer sentiment are important not just for the retailer but equally so for the manufacturer.



Optimized supply chain

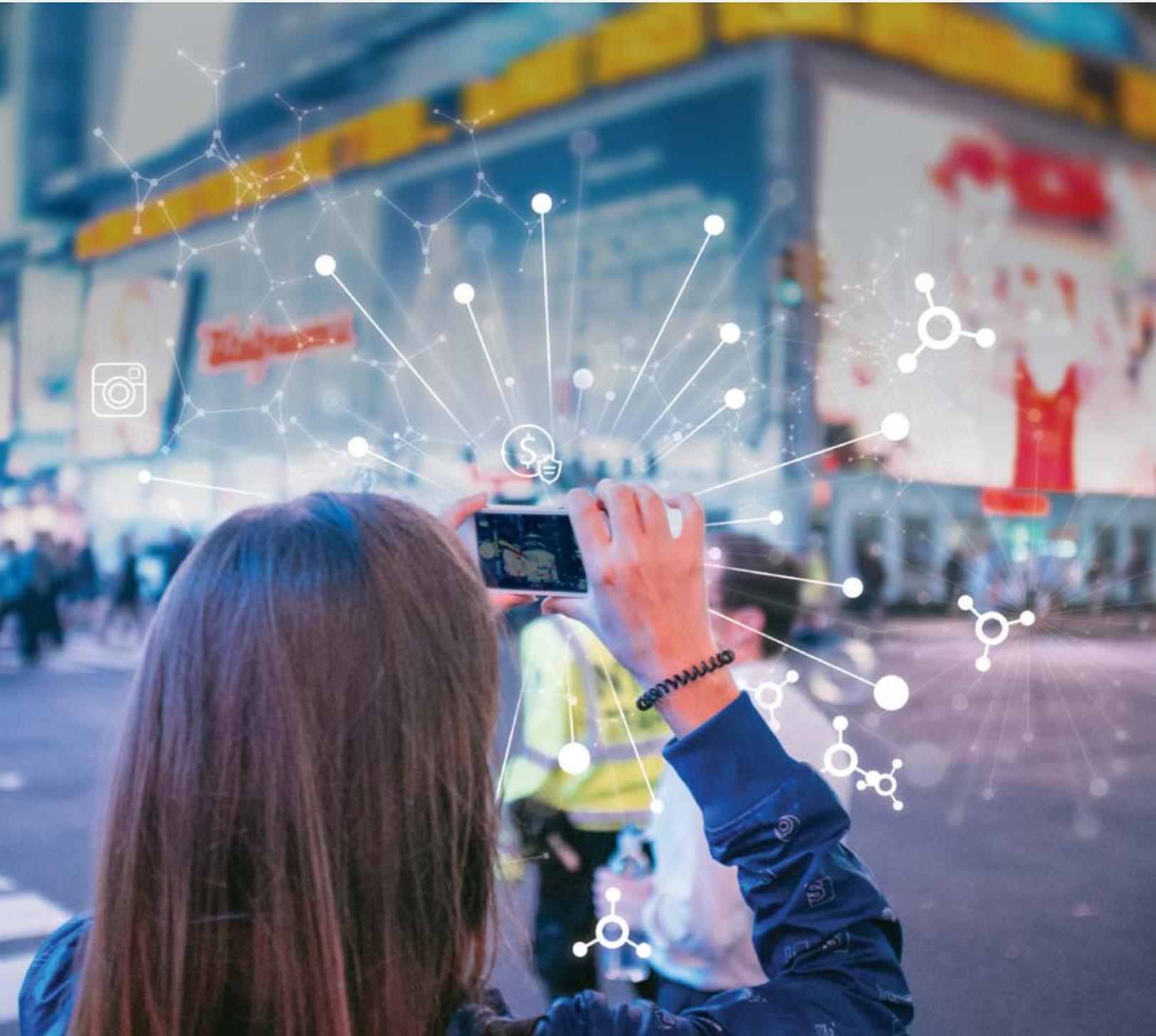
Innovations such as “click & collect” adopted by many leading retailers such as Macy’s and John Lewis, “Scan & Shop” (that combines print catalogs with shopping on a mobile device), and digital wallets rely on a degree of supply chain optimization that simply did not exist earlier. For instance, store and distribution center inventories have to be seamlessly integrated on a single common inventory system. The back-end integration to mobile apps used should reflect the availability of products across different stores in the city, special promotions for loyalty card members, and up-to-date prices.

Equally, it is important to optimize supplier processes to cater to new distribution formats. Not all retailers will have the wherewithal to manage “click & collect” on their own. In emerging markets, where population densities are higher and real estate is in short supply, retailers can own the “ordering channel,” but collaborate with local stores and manufacturers on new product distribution. Fulfilling long-tail SKUs will require innovative collaboration with manufacturers to minimize carrying costs. The new trend of “channel-specific launches”—for example, “exclusive” or “invite-only” product launches as is being seen in emerging markets require the manufacturer and retailer to operate almost a single unified supply chain—adjusting forecasts, production, and distribution strategies in real time.

Monitoring execution and results

Both parties should monitor progress on digital collaboration goals and outcomes by having regular joint reviews and frequent dialogue that surface potential business conflicts well before they occur, include new metrics or drop less relevant ones as their collaboration initiatives mature, and embed data and insight-led course correction efforts as a natural part of the way they collaborate. While not losing focus on the importance of quick wins, retailers and

manufacturers should also implement a road map of initiatives that they can focus on at different time horizons to ensure long-term success of the collaboration journey. It is easy to fall back on old habits and cynicisms when the flush of initial success hits unexpected roadblocks—reviews should therefore also focus on monitoring the behaviors and cultures that facilitate or hamper collaboration.



Key enablers for effective collaboration

Shared insights and analytics platform

A key requirement for effective digital collaboration is a scalable shared analytical platform that facilitates greater transparency and trust, enables rapid joint real-time data discovery and insight sharing over a wide range of data sources—PoS data, loyalty data, social media data, web analytics data, forecast data, inventory data, and marketing program data. Even if retailers and manufacturers begin with an initial objective of improving real-time data sharing and data exchange, the end goal must be to drive closer analytical collaboration. Integral to that is adopting a common analytical vocabulary and framework rather than debating the source of insights. Such collaboration can facilitate joint customer targeting and personalization, assortment mix, promotions, demand forecasting, on-shelf availability, channel optimization, and precision pricing in order to drive brand and category growth simultaneously. The analytics platform should also facilitate self-service analytics that put analytical insights in the hands of business users and help them integrate these insights into their operational business processes.

Coordinated processes

To ensure that big data insights do not remain stuck in organizational silos, it is important that functional processes are coordinated across both. We have already spoken about integrated and optimized fulfillment processes in the context of emerging fulfillment methods such as "click & collect," "drop ship," and "same day" shipping. Equally, processes should be aligned in other areas—manufacturer's marketing actions such as personalization, positioning, and promotions (for example, a manufacturer's campaign on Instagram) need to be aligned to retail execution in store and other channels. Adoption of IoT technologies (for instance, the Amazon Dash button) will also lead to big changes in replenishment or maintenance processes that require a coordinated supply chain. To make such process coordination effective, new practices have to be tried out. These could include embedding collaboration technologies in operations, having teams work jointly or even co-locate for a period of time to better understand each other's frame of reference and pain points, decentralization of decisions that were managed centrally in the past, and design of new metrics that measure and reward a collaborative mindset.

Leadership commitment

Without C-suite commitment toward long-term digital collaboration, most collaboration initiatives and efforts will not go beyond the proof-of-concept stage. Leaders on both sides should agree on benefit-sharing models, commit to the technology infrastructure and platform investments needed, be willing to adapt and change their organizational model, empower middle management resources, and be bold in trying out and scaling innovative and promising digital initiatives.

Conclusion

With increasing customer expectations and the complexity introduced by omni-channel, progressive retailers and manufacturers have realized the need to become more customer-centric, insight-powered and digitally empowered organizations. They can step it up further and improve sales performance by working together as collaborative partners in their digital journey. By exchanging the right information more transparently, using common platforms, leveraging joint analytical insights, driving integration in supply chain processes, and adopting a "win-win" approach, they can offer not only what is best for customers but also what is best for the category and brand. Their profitable growth depends on the success of this digital collaboration.

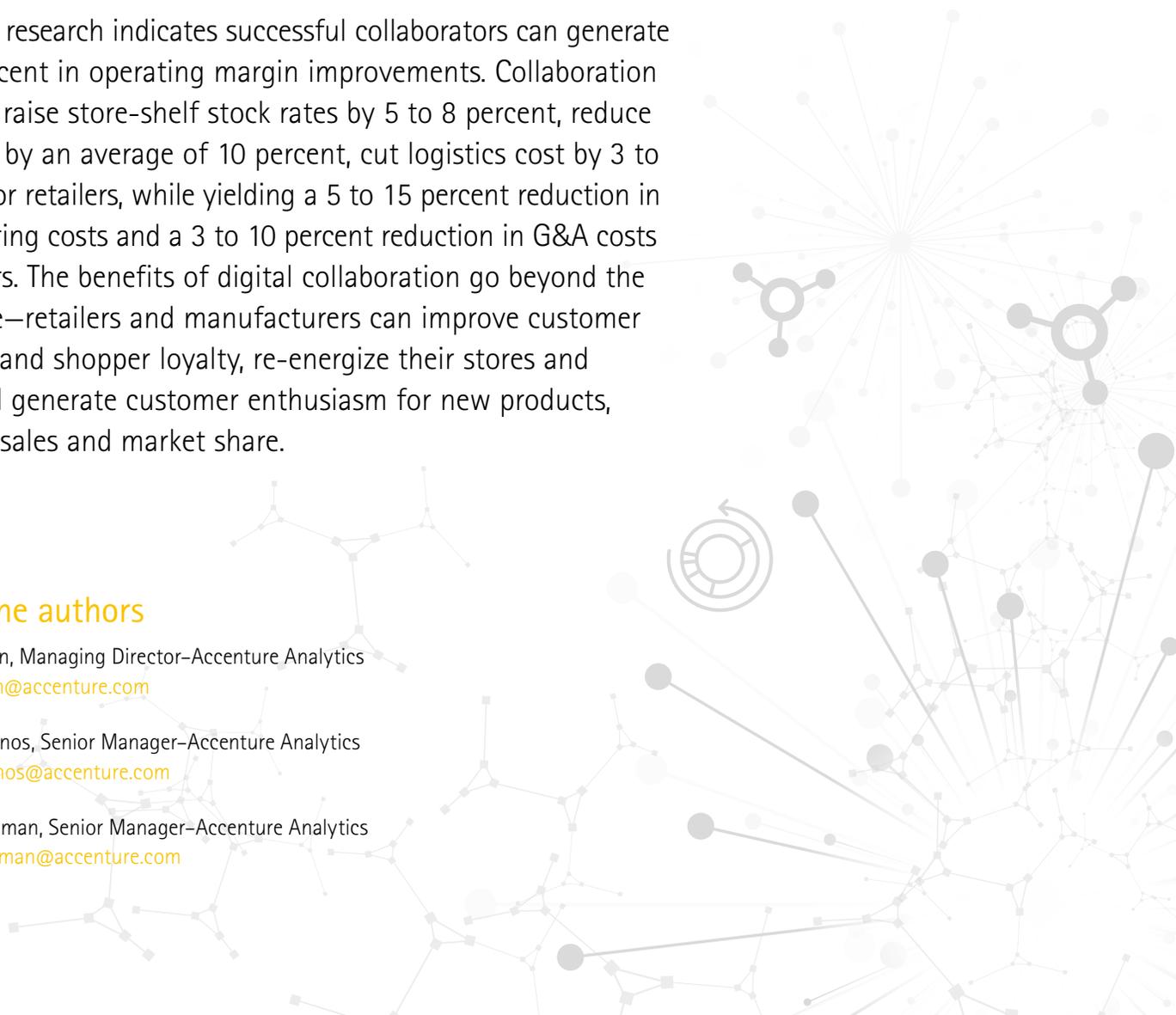
Accenture's research indicates successful collaborators can generate 2 to 10 percent in operating margin improvements. Collaboration efforts can raise store-shelf stock rates by 5 to 8 percent, reduce inventories by an average of 10 percent, cut logistics cost by 3 to 4 percent for retailers, while yielding a 5 to 15 percent reduction in manufacturing costs and a 3 to 10 percent reduction in G&A costs for suppliers. The benefits of digital collaboration go beyond the bottom line—retailers and manufacturers can improve customer experience and shopper loyalty, re-energize their stores and brands, and generate customer enthusiasm for new products, amplifying sales and market share.

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