

# SUPPLIER - RETAILER COLLABORATION IN SUPPLY CHAIN MANAGEMENT



PROJECT V May 1994

A Study Conducted for  
THE COCA-COLA RETAILING RESEARCH GROUP – EUROPE  
by GEA Consulenti Associati di gestione aziendale



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## INTRODUCTION

The Coca-Cola Retailing Research Group, Europe (CCRRG,E) comprises leading European grocery retailers sponsored by the Coca-Cola Company to conduct research into key topics in grocery retailing.

This report presents the findings of a study commissioned by the CCRRG,E to analyse the issue of Supplier-Retailer Collaboration in supply chain management in Europe.

The project was conducted by GEA Consulenti Associati and their associates ACE, DWP, ITECA, and P-E International, between March 1993 and January 1994.

## TABLE OF CONTENTS

Introduction .....	2
Table of Figures .....	4
Outline of Report .....	5
 <b>Chapters</b>	
<b>1. The Project</b>	
1.1 Project Objectives .....	9
1.2 Definitions .....	9
1.3 Methodology .....	11
1.4 Summary of contents .....	12
1.5 Acknowledgements .....	13
 <b>2. Key findings</b>	
2.1 Ten points about SRC .....	17
2.2 SRC and the Discounters .....	21
2.3 Comparison with the "Efficient Consumer Response" programme in the States .....	21
2.4 What is really happening in supply chain management? .....	22
2.5 Are you ready for SRC? .....	23
 <b>3. Collaboration in operations</b>	
3.1 Introduction .....	27
3.2 Efficient Operating Standards (EOS) .....	30
3.3 Efficient Replenishment (ER) .....	35
3.4 Efficient Administration (EA) .....	39
3.5 SRC in Operations: conclusions .....	43
3.6 The Information Technology revolution .....	47
 <b>4. Collaboration in marketing</b>	
4.1 Introduction .....	59
4.2 Efficient Store Assortment (ESA) .....	59
4.3 Efficient Promotion (EP) .....	64
4.4 Efficient Product Launch and Development (EPD) .....	69
4.5 SRC in Marketing: conclusions .....	73
 <b>5. Key steps in making it happen</b>	
5.1 Creating a favourable internal environment .....	79
5.2 External moves towards SRC .....	84
 <b>6. Under what circumstances will collaboration happen? .....</b>	<b>87</b>
 <b>Appendix 1 – Case Studies .....</b>	<b>93</b>
 <b>Appendix 2 – Field Research .....</b>	<b>114</b>
 <b>Appendix 3 – Details of figures used for SRC in operations .....</b>	<b>122</b>
 <b>Appendix 4 – Abbreviations .....</b>	<b>128</b>

## TABLE OF FIGURES

1.1	SRC cycle .....	10
1.2	Six families of SRC .....	11
1.3	Project Methodology .....	12
2.1	SRC: overall vision .....	20
2.2	Managing the Supply Chain .....	22
3.1	Key differences by country .....	28
3.2	How have we measured this? .....	29
3.3	Efficient operating standards: present level of experience on major activities .....	30
3.4	Willingness to openly discuss logistic costs .....	33
3.5	Efficient replenishment: present level of experience on major activities .....	38
3.6	Benefits achieved/expected with E.R. ....	38
3.7	Present use of EPoS Data .....	39
3.8	Future use of EPoS Data .....	39
3.9	General information flow in efficient administration .....	40
3.10	EA: Benefits and problems .....	41
3.11	EA: Estimated Savings .....	42
3.12	EA: Split of savings by nature .....	42
3.13	EA: Split of savings by process .....	42
3.14	SRC in Operations Benefits .....	43
3.15	Split of supply chain costs .....	44
3.16	SRC Benefits in operations: Retailer's & Supplier's judgements .....	45
3.17	SRC: Adoption Curve .....	46
3.18	Nature of I.T. Collaboration .....	48
3.19	EDI Counterparts .....	49
3.20	Transmission of documents via EDI .....	50
3.21	Selection criteria of EDI counterparts .....	51
3.22	Obstacles to EDI adoption .....	52
3.23	Age of applications .....	53
3.24	Most important factors for EDI development .....	53
4.1	Information exchanged at present .....	60
4.2	Reaction to estimate of benefits .....	62
4.3	Selection criteria of categories for collaboration on assortment .....	62
4.4	Selection criteria of counterparts for successful collaboration on assortment .....	63
4.5	Difference between "normal" and "collaboration" promotion .....	66
4.6	Difference between "normal" and "collaboration" promotions: further benefits .....	66
4.7	Impact of special pack promotions .....	67
4.8	Forward buying at different level of discount price increase .....	68
4.9	Quantity and level of innovation of products launched .....	69
4.10	Product launches: present collaboration and impact .....	70
4.11	New product development: present collaboration and impact .....	71
4.12	Private label production by leading suppliers .....	72
4.13	Unbalanced partnerships .....	74
4.14	Balanced partnerships .....	74
4.15	Total benefits of collaboration in the marketing area .....	76
5.1	Ranking of organisational actions to make collaboration successful .....	79
5.2	Develop direct communication between functions .....	80
5.3	Present communication between functions .....	81
5.4	Category management .....	81
5.5	Category Managers' responsibilities & working tools .....	82
5.6	Key priorities of human resources management for SRC .....	83
5.7	Most important criteria for the selection of a collaboration project .....	85
6.1	How important is co-ordination amongst Retailers' decision making points? .....	88
6.2	Retailers' performance matrix will influence SRC focus .....	89
6.3	Typical evolution of a Suppliers profit & loss structure .....	90
6.4	Life cycle of attitudes towards SRC .....	91
6.5	Number of companies involved in SRC .....	92
A.2.1	Field Research Participants .....	115
A.3.1	EOS - Evaluation of Benefits .....	123
A.3.2	Percentage of products' flow through RDC .....	124
A.3.3	Stock in the supply chain (flow through RDC) .....	125
A.3.4	Total logistic cost: flow through RDC .....	126
A.3.5	Retailers' gross margin .....	127

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## OUTLINE OF REPORT

### 1. THE PROJECT

- 1.1. Project objectives
- 1.2. Definitions
- 1.3. Methodology
- 1.4. Summary of contents
- 1.5. Acknowledgements

### 2. KEY FINDINGS

- 2.1. Ten points about SRC
- 2.2. SRC and the Discounters
- 2.3. Comparison with the "Efficient Consumer Response" programme in the States
- 2.4. What is really happening in supply chain management?
- 2.5. Are you ready for SRC?

### 3. COLLABORATION IN OPERATIONS

- 3.1. Introduction
- 3.2. Efficient Operating Standards (EOS)
- 3.3. Efficient Replenishment (ER)
- 3.4. Efficient Administration (EA)
- 3.5. SRC in Operations: conclusions
- 3.6. The Information Technology revolution

### 4. COLLABORATION IN MARKETING

- 4.1. Introduction
- 4.2. Efficient Store Assortment (ESA)
- 4.3. Efficient Promotion (EP)
- 4.4. Efficient Product Launch and Development (EPD)
- 4.5. SRC in Marketing: conclusions

### 5. KEY STEPS IN MAKING IT HAPPEN

- 5.1. Creating a favourable internal environment
- 5.2. External moves towards SRC

### 6. UNDER WHAT CIRCUMSTANCES WILL COLLABORATION HAPPEN?

**APPENDIX 1** – Case Studies

**APPENDIX 2** – Field Research

**APPENDIX 3** – Details of figures used for SRC in operations

**APPENDIX 4** – Abbreviations





## THE PROJECT



1

- 1.1 Project Objectives
- 1.2 Definitions
- 1.3 Methodology
- 1.4 Summary of Contents
- 1.5 Acknowledgements



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## CHAPTER 1: THE PROJECT

### 1.1. PROJECT OBJECTIVES

The objectives specified by the CCRRGE were:

- To answer the following questions:
  - should suppliers and retailers collaborate?
  - will they be better off?
  - how much will they gain?
  - when will the benefits occur?
  - how can they be achieved?
- To cover all possible viewpoints:
  - strategic
  - financial
  - operational
  - organisational
  - technological

Given the nature of this subject, already greatly debated in the sector, it has been agreed that the approach to the topic itself requires answers which are:

- as concrete and factual as possible;
- representative of the real situation in the main European countries at least, and of significance to the companies that operate in them.

Finally, as we are dealing with a subject which, by definition, may concern all operators in the grocery sector, it has been agreed that the project should present an opportunity for encouraging operators to participate, discuss their opinions together and find common ground for agreement.

### 1.2. DEFINITIONS

We have defined the subject of our project as follows:

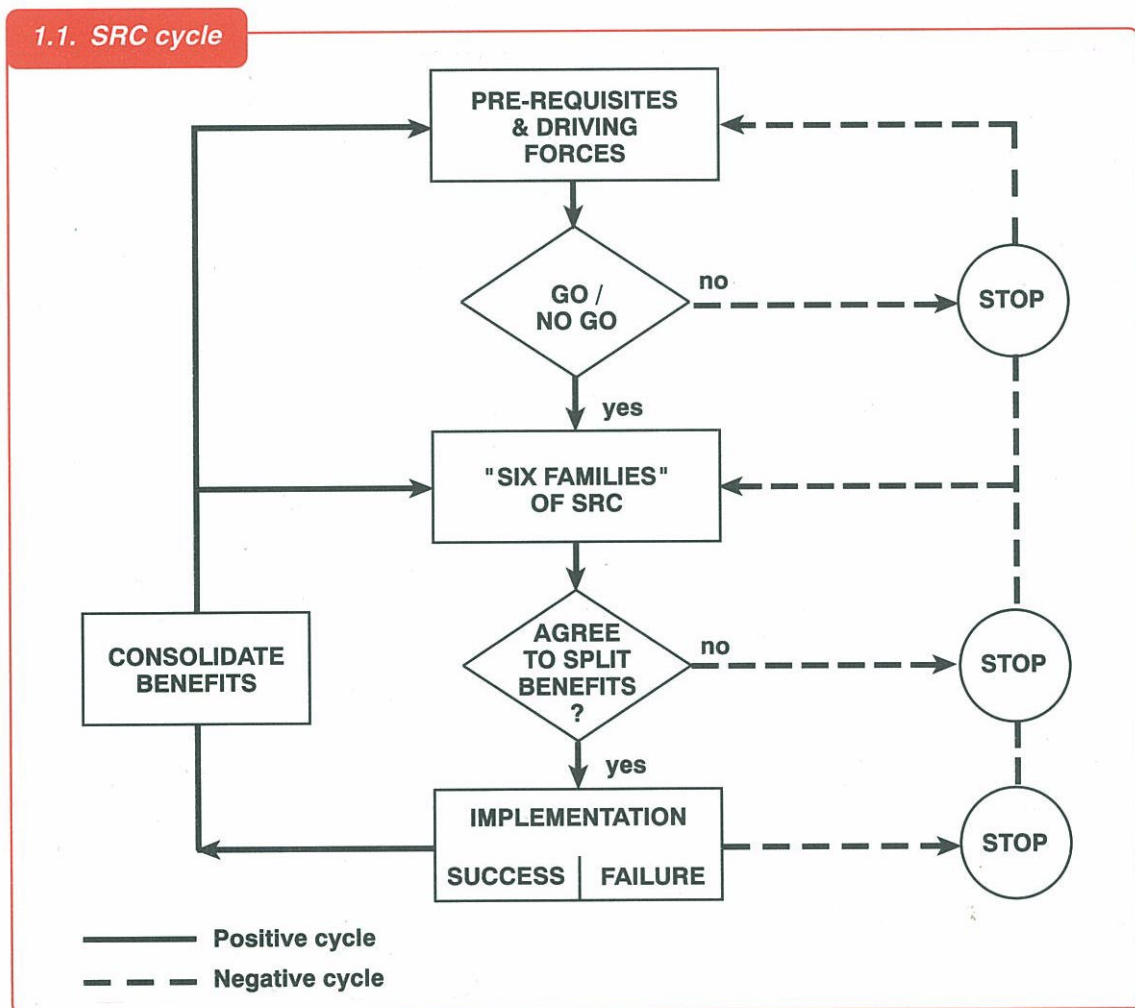
“Supplier/Retailer Collaboration (SRC) is when both Retailers and Suppliers share proprietary internal or external data, and/or share policies and processes used in decision making with the clear objective of sharing the benefits”.

Traditional co-operation between suppliers and retailers becomes real collaboration at the point when they begin to exchange analytical sales and costs data in order to share the benefits. As the type of data exchanged becomes greater and more market oriented, so do the possibilities for strategic collaboration.

We have pointed out that SRC can develop in the cycle shown in table 1.1.

- a) To start with one must establish the existence – or otherwise – of pre-requisites (starting conditions) and of driving forces capable of encouraging or inhibiting the entire process.
- b) When collaboration occurs this can be categorised into six distinct “families”, according to its nature.

- c) During the very first phase of a collaboration programme partners must check carefully how possible it is to share the benefits, and how willing they are to do so.
- d) If the implementation of a project produces successful results, it encourages a positive cycle not only by bringing greater benefits but also by broadening the areas of collaboration and improving the status quo, which will also benefit other operators in the sector. If, on the other hand, a collaboration project produces negative results, this may cause the same partners to lose faith in collaborating together in other ways and have negative effects on the whole sector.



As mentioned above, the activities involved in SRC have been classified into six families. We have decided to use the same terminology as that adopted in the United States so as to make references and the exchange of experiences simpler: the definitions are set out in Table 1.2.

We would like to point out that all the potential costs and savings figures have been expressed as a percentage of the sales turnover at retail price. The aim of this is to maintain consistency in the data throughout the supply chain.

## 1.2. Six families of SRC

### SRC in OPERATIONS

#### "Product flow"

Efficient Operating Standard	(EOS)	Suppliers and Retailers work together to optimise product flow without exchanging analytical sales data
Efficient Product Replenishment	(ER)	Retailers give Suppliers sell-in or sell-out data to allow them to share responsibility for deliveries within agreed levels of stock and service

#### "Information flow"

Efficient Administration	(WA)	Suppliers and Retailers work together to reduce non value-added activities and costs in the flow of documents
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### SRC in MARKETING

Efficient Store Assortment	(ESA)	Suppliers and Retailers work together to define store assortment to maximise efficiency and profitability of store space
Efficient Promotion	(EP)	Suppliers and Retailers work together to reduce costs or improve promotion results
Efficient Product Development	(EPD)	Suppliers and Retailers work together to develop new products or plan product launches to reduce costs and the failure rate

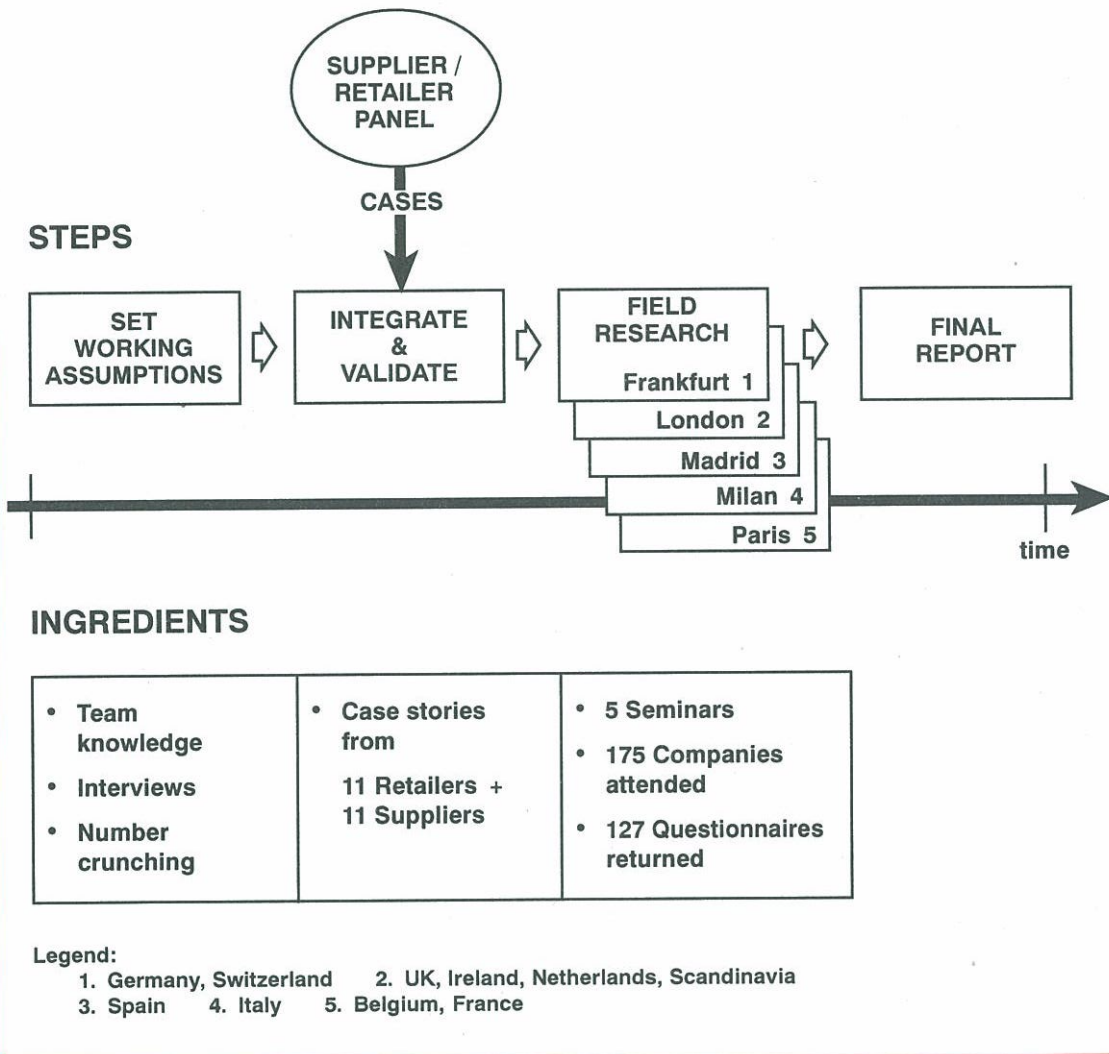
## 1.3. METHODOLOGY

This report is the final product of a methodology designed to meet all the projects' objectives (table 1.3.). We have gathered information from a wide variety of sources. These include:

- a) *The professional team* which has organised the work based on their own experience and on specific interviews, and has carried out the entire quantitative analysis.
- b) *Eleven case studies* describing actual experiences of collaboration on several subjects and in different European countries. The contribution of the companies studied has been a major help both in determining the structure of our work and in providing some of the results. The essence and findings of the cases are incorporated in the various chapters of the report and on occasion extracts have been included. A more analytical treatment of the same is presented extensively in Appendix 1.
- c) *Field Research* based on five seminar-debates attended by 175 companies in five different European locations, and on the analysis of 127 questionnaires of data and opinions concerning collaboration which the companies have answered following the seminar.

The results of this research are incorporated in the text, while Appendix 2 gives information about the participating companies.

### 1.3. Project Methodology



### 1.4. SUMMARY OF CONTENTS

The report is organised as follows:

- Chapter 2:** This contains the summary of our key findings and a synopsis of the evolution which is taking place in supply chain management.
- Chapter 3:** This covers the subject of SRC in operations (both product and information flow). It describes the status quo, the SRC action possible and its potential benefits. It also describes the adoption curve and the question of time span. Finally it describes the Information Technology (I.T.) revolution which is taking place for both suppliers and retailers, (role of IT; development of Electronic Data Interchange (EDI); relevant driving forces).
- Chapter 4:** This covers SRC in marketing, in three areas: store assortment, consumer and trade promotions and new product launch and development. Possible action, key requirements, potential benefits and useful criteria for the selection of the appropriate partner and/or the product category are described.

**Chapter 5:** This analyses the way to bring SRC about in real terms from an organisational point of view. It focuses on key managerial actions within any given company and on the steps to be taken with SRC partners and within the business environment as a whole.

**Chapter 6:** This describes what the key driving forces are in any given country for bringing about SRC and provides an insight into present and future development of SRC in some of the major countries in Europe.

We have also enclosed some more detailed material in four appendices:

**Appendix 1:** this contains the 11 full case studies

**Appendix 2:** this provides details of the field research participants

**Appendix 3:** this provides more analysis of the figures used to assess the benefits of SRC in operations

**Appendix 4:** this provides a glossary of all abbreviations used in the report

## 1.5. ACKNOWLEDGEMENTS

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- The companies that have described their experience in the case studies and given us authorisation to publish these. Their order follows the sequence of chapters:

Tesco & Birds Eye Walls	UK
Coop Italia & Granarolo	Italy
Dansk & Tholstrup	Denmark
Conad & Barilla	Italy
Asko & Procter & Gamble	Germany
Coop Schweiz & Nestlé	Switzerland
Promodès & BSN	France
Caprabo & Gallina Blanca Purina	Spain
Hakon & Coca-Cola	Norway
Delhaize Le Lion & Hot Cuisine	Belgium
A. Heijn & Bakker Fatels	Netherlands

- The 127 companies that have participated in the Field Research. Please see Appendix 2 for the full list.
- Outstanding Institutes and Federations of the grocery industry: AECOC (Spain), IGD (UK), FAID, Federcom, Centromarca (Italy).
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*Peter Harding* of Kurt Salmon & Associates  
*Brian Harris* of Retail Directions Inc.  
*Roy Shapiro* and *Walter Salmon* of Harvard Business School  
*Judy Kozacik* of FMI

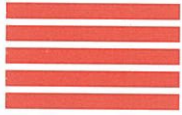
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<i>Giampaolo Fascina</i>	GEA – Milan
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<i>Dominique Romanowski</i>	GEA – Milan
<i>Fabrizio Tellarini</i>	GEA – Milan
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## KEY FINDINGS



- 2.1 Ten Points about SRC
- 2.2 SRC and the Discounters
- 2.3 Comparison with the "Efficient Consumer Response" programme in the States
- 2.4 What is really happening in supply chain management?
- 2.5 Are you ready for SRC?



## CHAPTER 2: KEY FINDINGS

In this chapter we will summarise our key findings concerning SRC in supply chain management in the European grocery business.

We believe it useful to start with a presentation of an overview of our entire work based on the ideas and feelings of the opinion leaders interviewed, lessons learned from the experience of the specific cases analysed and the answers to the Field Research questionnaires.

### 2.1. TEN POINTS ABOUT SRC

#### 1) The overall picture

Supplier-retailer collaboration (SRC) is a process aimed at reducing excess costs in the supply chain and/or improving profitability by increasing sales and gross margins.

Overall potential benefits of SRC in the European industry can be estimated at 2.3 to 3.4 percentage points of sales turnover at retail price. These benefits will be split between retailers (approx. 60%) and suppliers (approx. 40%). This is clearly, compared with the present level of profitability, a great deal of money for any individual company in the grocery business. Those who move first will obviously have a great advantage over their competitors. The fact that these benefits can be achievable is confirmed by our research in this field, carried out with 127 of the major European companies. The range of benefits reflects the various levels of efficiency measured in each country: the UK and France are already more advanced in the reduction of costs and therefore show less potential for improvement; vice versa for Italy, Germany and Spain.

#### 2) Types of SRC

We have found two general kinds of collaboration, both of which can be achieved by well managed and fully committed companies:

- *the first* focuses on reducing costs in operations (both product and paper flows), where we estimate there is a potential saving of 1.5 to 2.5 percentage points of sales turnover at retail price. This is developed and documented fully in chapter 3.

The exact benefits to be gained here are dependent on the starting situation and the extent of collaboration between the partners.

These benefits (due to the neutrality of their technical nature), can be achieved by a large number of companies as there is little exchange of point of sale data or confidentiality involved.

Two thirds of such benefits will go to retailers, owing to the wider span of their activities within the supply chain, with the other third going to the suppliers;

- *the second* focuses on developing synergies in the marketing mix by means of improved assortments, joint product innovation, and lower cost promotion. This is dealt with fully in chapter 4.

This type of collaboration is more "strategic" and selective and it involves an in-depth understanding of power-games which will vary from country to country and category to category.

We estimate benefits here can reach at least 0.8 to 0.9 percentage points of sales turnover at retail price. The benefit of each individual form of collaboration is 3 to 4 times higher. The "global" result is lower because within each category collaboration projects will almost certainly exclude some operators.

In this kind of collaboration, suppliers will gain slightly more (approx. 60% of benefits) due to a greater focus on their categories.

In addition to tangible benefits, such collaboration programmes will create strong links between suppliers and retailers. Those who do not participate may find themselves excluded.

### **3) Where?**

We have noticed that collaboration has already begun to happen and we foresee that this will spread throughout Europe. However the starting conditions are quite different and this leads us to presume different priorities in each country as regards the nature of the collaboration projects. These are in particular:

- companies in the UK and France will be more concerned with projects related to an increase in gross margins;
- companies in Germany, Italy and Spain seem to be principally concerned with the reduction of costs, at least at the beginning.

### **4) Roles in SRC**

Collaboration is usually a retailer-driven process and stems from their determination to reduce their own costs and focus more closely on the final consumer. In this way they can win greater loyalty, differentiating from their competitors by using strategies which are not based exclusively on bargain prices.

Strong retailers have developed the strategic power and the human and financial resources necessary to set up the systems and to manage the decision making processes required by collaboration quickly and consistently throughout their organisation. Centralisation of flows through Regional Distribution Centres and their paramount productivity are key elements. Retailers competing in the discounting business will also benefit from collaboration with certain suppliers in several cost cutting activities.

Suppliers play a very relevant role as partners, sowing the seeds of their experience throughout the world. Given their focus on product categories, they help to give collaboration a shape by several means: either involving cost cutting or by building up a "strategic alliance" (usually between equally powerful counterparts) or by "virtual integration" (usually between one strong leader and a "facilitator" partner).

### **5) The adoption process**

It requires time and a critical mass in order to initiate collaboration in operations, because pioneer retailers must first find a minimum number of partners who are willing to participate in this process to share information and to adopt new operating standards. We estimate that in any given European country 5-15 retailers and 200-300 suppliers will have both the ability and commitment to undertake such projects. After the initial phase this form of collaboration pays off: costs and benefits are worked out openly and are almost evenly split between the partners, at least in the medium term.

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Collaboration in marketing, on the other hand, does not require a critical mass to generate benefits and can therefore take place between few retailers and suppliers. It will eventually spread throughout the sector as a whole but, because of its selective nature, each operator cannot expect it to cover a hundred percent of their business.

Case studies show that after several years of consolidating benefits effectively, a joint decision on the part of the retailer and supplier may also transfer some of the benefits to the consumer.

## **6) Organisation**

Collaboration starts with a strategic commitment by top management, but it is primarily driven by the organisational ability of companies to integrate functions like purchasing, distribution, marketing, merchandising (among retailers), selling, marketing, and logistics (among suppliers). Category management is a suitable organisational framework for the development of strategies for key categories and for running collaboration programmes within these.

Collaboration is a process based on trust and long term relationships; employee skills, operating mechanisms (such as incentives) and personal attitudes towards change are key organisational strengths that must evolve from typical short term to long term orientation.

## **7) Personnel**

Collaboration will significantly change "routine" selling, merchandising, purchasing and administrative activities. This will cause dramatic reductions in the size of both selling and buying personnel (estimates range from 20% to 40%) with general reshaping of skills and responsibilities for those remaining. Our research shows that the vast majority of European suppliers believe that this will be a major area for reducing their costs. The possible savings are incremental to the benefits mentioned previously; they have not been included in our estimates because they do not necessarily spring from collaboration itself. Furthermore, as we are primarily dealing here with fixed costs, the reduction of these cannot be treated in general terms. What is more, companies willing to collaborate must be aware that this organisational revolution can work against collaboration, and must manage the implementation process carefully.

## **8) Knowledge integration**

The essence of collaboration is the exchange of information and knowledge between suppliers and retailers regarding consumer needs, purchasing behaviour and products (both specifications and flow). This exchange of information will transform two traditionally independent and often conflicting sets of data into one integrated vision. A good example of this is the production of private labels by the major brand suppliers. Our research shows that over 50% of them already produce private labels and, through this, achieve better integration with their retailers.

## **9) Information technology**

Information technology, electronic data processing and electronic data interchange (EDI) are key to collaboration, which needs a very intensive, frequent and accurate exchange of detailed information. Development of adequate information systems is essential for success, although this is already the case in large and well managed companies. National development of common standards and transmission codes, and third parties capable of handling communication in an efficient and confidential way greatly facilitate the development of collaboration.

## 10) The implementation process

The overall process of implementing collaboration involves a number of critical steps: this is borne out by the experience of most advanced companies.

Five of these steps concern the creation of a favourable internal environment:

- gaining top management support;
- being ready to share information about the market, the consumer, and the internal operational mechanisms involved in collaboration;
- training functional experts (especially in marketing and logistics) to communicate directly with their counterparts in order to help sales and purchasing to design the most effective way of managing the supply chain;
- developing category focus (50% of retailers in our research have already done this through Category Management);
- improving co-ordination, planning and control through process re-engineering and fine tuning of human resource management (e.g. training, incentives).

The other five steps concern the external business environment:

- choosing the best pioneering partner (using trust and affinity as the basic criteria);
- starting with the right projects (aiming at the success and credibility of the whole programme);
- evaluating benefits (both tangible and intangible) for each of the partners, carefully and openly;
- setting the standards for key activities (e.g. coding, transmission, handling) in order to achieve critical mass and to increase the benefits;
- building up an "industry club" which will provide opportunities for companies to share their results with others, encourage consensus and commitment and develop culture within the industry.

We believe it can be useful to present the ten key findings also in a very simple synopsis (table 2.1.)

2.1. SRC: overall vision	
ISSUES	KEY FINDINGS
OVERALL PICTURE	Costs ↓ , Margins ↑ ; 2.3 ÷ 3.4 points benefits at retail price; 60% Retailer, 40% Supplier
RANGE	Operations; 1.5 ÷ 2.5 points benefits; 2/3 Retailer – 1/3 Supplier; many involved Marketing; 0.8 ÷ 0.9 points benefits; 40% Retailer – 60% Supplier; few involved; power games
WHERE	Everywhere, with different priorities: France/UK – Germany/Italy/Spain
ROLES	Retailer driven; Suppliers help shaping SRC
ADOPTION	Pioneers → Critical mass → Final Consumer
ORGANISATION	Strategic commitment + organisational abilities + People skills & attitudes
PERSONNEL	Revolution of traditional activities. Re-engineering of processes
KNOWLEDGE INTEGRATION	Integrating two independent sets of information into one "vision"
INFORMATION TECHNOLOGY	Key role of Management Information System and EDI. Need of standards. Useful Third Parties
IMPLEMENTATION PROCESS	Five "internal" + five "external" key steps

## 2.2. SRC AND THE DISCOUNTERS

A decision has been taken to exclude the discounting formats from the specific analysis of this report.

This certainly has nothing to do with the lack of relevance of this format, which is, on the contrary, spreading both progressively and significantly throughout Europe, North and South. It has to do, however, with the great lack of homogeneity of this format, from all points of view, compared with every other one in grocery retailing i.e. the assortment (both of the quantity and nature of the products), service, pricing and cost structures and promotion policies. These differences, if averaged out over the sector, would have rendered analysis meaningless. The discounting phenomenon deserves, therefore, to be looked at separately in depth, using specific case studies and relevant experts' opinions. It seems to us, however, that certain aspects of this project lead one to believe that collaboration between suppliers and retailers is both possible and fruitful in the discounting business, even if with a tailored approach. In particular we have in mind the optimisation of logistics and virtual integration with suppliers of private labels.

## 2.3. COMPARISON WITH THE "EFFICIENT CONSUMER RESPONSE" PROGRAMME IN THE STATES

The topic of supplier-retailer collaboration is also being studied by companies and institutions in the USA, under the title of "Efficient Consumer Response" (\*)

If we compare the two phenomena, as the companies of the grocery sector, especially the multinationals, will probably do, there are three similarities but one very significant difference:

- a very similar key driving force: in other words competitive pressure to reduce costs along the supply chain;
- a very similar set of actions both in operations and marketing. In fact, at the very beginning of our project we agreed to use the same terminology, so as to help companies compare both types of experience;
- a similar implementation process both inside the company itself and externally (a club of leading companies, creation of a critical mass of participants, follow-up programmes based on case studies, development of methods and working instruments, training and communication).
- the main difference lies in the estimates of potential benefits. The starting conditions in the USA enable the researchers to foresee an overall benefit of about 10.8 percentage points of sales turnover at retail price, to be achieved in a time period of 2 to 3 years.

In Europe, on the other hand, it is reasonable to estimate a result of 2.3 to 3.4 percentage points depending on the country concerned. Often the starting conditions are already quite efficient in European companies and the benefits, above all those regarding marketing, are not accessible to everyone and depend on the power-games within each country and within the product category.

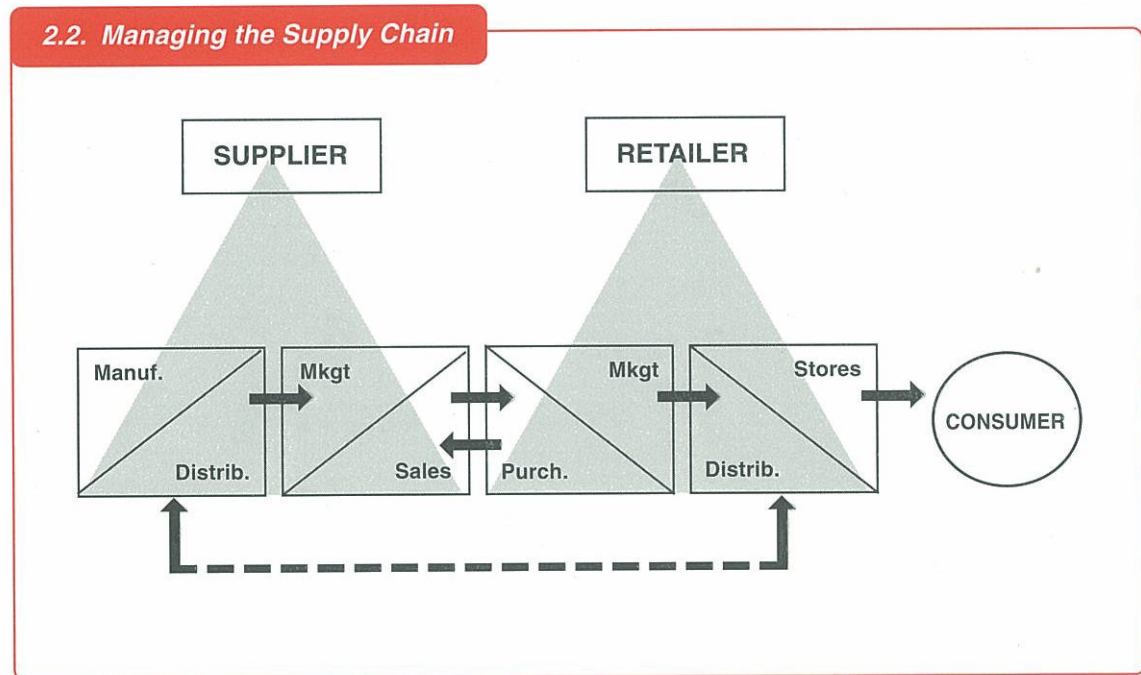
However, we still believe that the cross-fertilisation of experiences and challenges from one side of the Atlantic to the other is a very positive factor for cultural growth.

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(\*) For more information please see the report "Efficient Consumer Response" published by FMI – Washington DC in January '93

## 2.4. WHAT IS REALLY HAPPENING IN SUPPLY CHAIN MANAGEMENT?

To understand the profound nature of the transformation that supply chain management is undergoing we have used a series of evaluations which we hope do not appear oversimplified.



Many of the traditional activities within the supply chain are influenced by a tendency to “push” the product towards the end of the chain, i.e. towards the consumer (table 2.2.). These include the following:

- production overloads the warehouses to minimise its own costs;
- sales and marketing over load retailing in order to empty the warehouses and fill the shelves;
- the buyers pump up the purchases from the vendors to obtain the best price and consequently the shops are overloaded in order to sell off the goods;
- if, within the same company, there is often lack of co-ordination of these activities, obviously this will be even worse if different companies are involved, thus causing significant variations in the flow of goods and a considerable amount of effort and expense for all concerned;
- suppliers and retailers create their own “vision” of the needs of the consumer, and tend only to use each other as a means of achieving their strategy to their own satisfaction.

What is now happening is a substantial change in attitudes and behaviour:

- suppliers and retailers decide to compare their respective views on the needs of the consumer and then to work out a joint interpretation;
- a joint vision on the needs of the consumer leads to respect of the roles of the product specialist and the service specialist. They are both essential to meet the purchasing needs of the consumer;



- suppliers and retailers analyse and put into practice the strategies and infra-structures most suitable for the best assortment of goods and, at the same time, the most economical flow possible overall. Naturally, by doing so, "alliances" are formed which may make the other competitors marginal;
- the flows of information and goods are fully automated, bringing them into line with the best possible forecast of consumer purchases in each individual store. All the handling phases along the pipeline, are reorganised so as to obtain the lowest overall cost;
- production is adapted, obviously with some technological constraints, to feed the pipeline, following the "pull" of the consumer and not vice versa.

This is not easy for everyone, and for some it is not ideal, because not all operators have the same interest in making a similar change in the rules of the game, as this may disturb the status quo of their bargaining power.

However, the initial results of SRC, the opinion of a large number of protagonists and the strategic stake involved, lead us to believe that many will decide to accept this challenge. With this in mind, they will have to redefine their strategies, to redesign their systems and to restructure their organisation, skills and personnel.

We hope that this report will be a useful source of reference for them.

## 2.5. ARE YOU READY FOR SRC?

Having read the summary of our findings and appreciated the new philosophy of supply chain management, we feel that senior management might wish to assess how advanced their organisation already is as regards the challenges and benefits of SRC. Below are some of the key questions we suggest senior management in both supplier and retailer companies consider and the rationale behind them. We hold them to be a useful appetiser for a more detailed assessment which will be possible after reading the full report.

### For the Retailer

*Question 1: How advanced is your control of product flows through your own Distribution Centres?*

The control of product flows is an important prerequisite for minimising the logistic costs and optimising the standards of service to your stores and the consumer.

*Question 2: How effectively does your company focus on the design and implementation of successful strategies for at least the key product categories of your assortments?*

This is a means for encouraging differentiation and competitiveness with regards to your competitors.

*Question 3: How advanced is your organisation in the use of information technology as a competitive weapon?*

This is key to forecasting and controlling the flow of goods and the costs of activities at a very analytical level, in order to optimise them through SRC.

*Question 4: How ready is your organisation to discuss and review its marketing strategy with some of your key vendors?*

This will be very suitable if you wish to improve sales and/or gross margins by collaborating with a selected number of vendors in your key categories.

*Question 5: How fast and consistently can your organisation implement all aspects of the programmes that have been designed and/or agreed upon centrally?*

This will obviously make your company more reliable and effective in achieving results and in demonstrating your consistency and commitment to your partner.

*Question 6: How well does your entire organisation, (not only your buyers), know your key vendors, their strategies, their company culture, their operating mechanisms and their key performance indicators?*

This is very useful if one wants to design a strategy of overall supply chain optimisation through SRC.

## **For the Suppliers**

*Question 1: Is your organisation capable of continuously replenishing your key customers at minimum costs?*

This will most probably be one of the major challenges for your organisation in the near future for two reasons. Retailers will be pushing for the adoption of E.R. to cut their costs and suppliers will be also keen to be in closer touch with final sales to the consumer. However this is not as easy as it seems and suppliers who want to reap the financial and strategic benefits of this, must be well prepared.

*Question 2: How prepared is your marketing organisation to integrate your customers' needs when designing your strategy?*

Those who do this will probably have a competitive edge in strategic category management over other suppliers.

*Question 3: Are you interested in and in a position to supply private labels as well as your own national brands?*

This seems to be a very hot topic in some product categories, with potential strategic advantages when inserted into a company's overall manufacturing, research and development strategy.

*Question 4: How efficient is the deployment of staff concerned with the commercial side of your company (e.g. selling, merchandising)?*

Collaboration and continuous replenishment will certainly allow global reshaping of tasks and structures, job redesign and relocation of personnel to take place (obviously this involves many opportunities and problems).

*Question 5: How efficient and effective are the processes related to the supply chain in your company?*

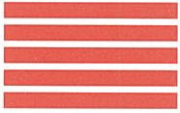
The implementation of continuous replenishment, of EDI and the reorganisation of commercial staff can open the door to noticeable opportunities for the successful re-engineering of some of the major processes within your company.

*Question 6: How well does your entire organisation know your key customers, their strategies, their company culture, their operating mechanisms and their key performance indicators?*

This is, as it is for retailers, fundamental if one wants to design a strategy of overall supply chain optimisation through SRC.

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## COLLABORATION IN OPERATIONS



- 3.1 Introduction
- 3.2 Efficient Operating Standards (EOS)
- 3.3 Efficient Replenishment (ER)
- 3.4 Efficient Administration (EA)
- 3.5 SRC in Operations: conclusions
- 3.6 The Information Technology revolution



## CHAPTER 3: COLLABORATION IN OPERATIONS

### 3.1. INTRODUCTION

Collaboration in Operations is the major source for reducing excess costs in the supply chain. This chapter will:

- clarify what action can be jointly taken by the supplier and retailer to reduce the costs of both the flow of goods and of information.
- evaluate the overall benefits and how they are shared out between supplier and retailer.
- highlight the constraints and critical factors involved and to show the likely adoption curve.

To evaluate the benefits we must first examine the situation in Europe as it is now. All main variables which influence logistic costs, differ greatly from country to country. Table 3.1. presents the more relevant figures and appendix 3 offers further details.

From a methodological point of view, we have followed the process which is illustrated in table 3.2. The flow of activities and the costs for suppliers and retailers have been initially analysed by country and by category of products. Then we have evaluated the impact of each possible SRC action, its related benefit and the effects on the cost structures.

On the following pages we will be focusing mainly on the actions of supplier/retailer collaboration and their impact on supply chain costs and less on the present situation.

Where relevant, however, the way in which different practices in each country affect the nature and benefits of such actions will be pointed out.

The SRC actions concerning the management of the flow of goods and information in the supply chain have been divided into three families:

**EOS (Efficient Operating Standards):** when the supplier and retailer work together to optimise distribution, although the retailer continues to send orders to the supplier without transmitting either information about the flow from Regional Distribution Centres to the points of sale (POS) or POS sales data.

In other words, the management procedures continue in a traditional manner (i.e. "the order is still placed"), but they revise each activity using a supply chain optimisation approach.

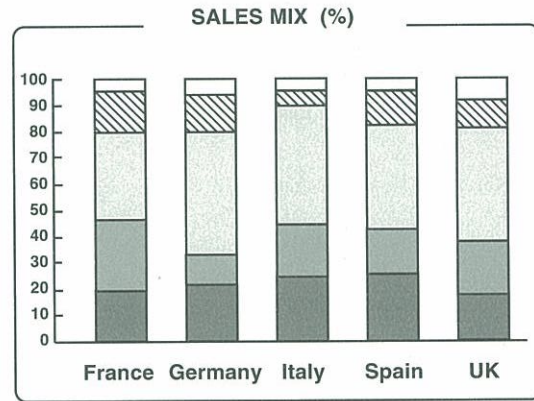
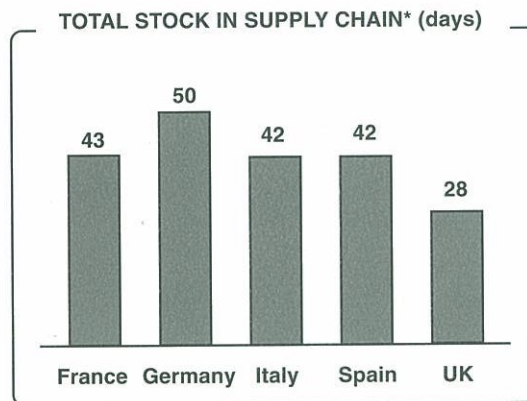
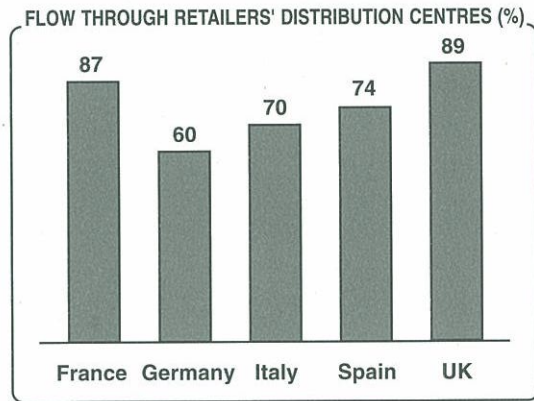
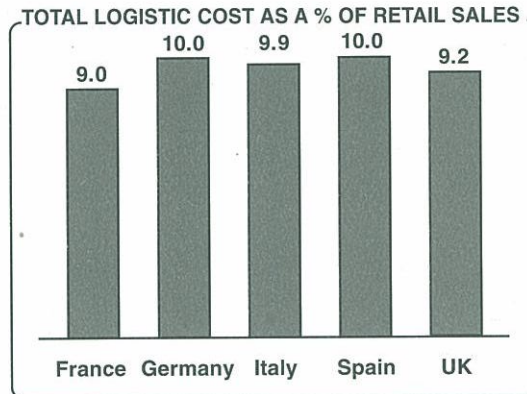
**ER (Efficient Replenishment):** when the retailer provides the supplier with information in addition to the orders, with the same or even greater frequency. This information may have different levels of confidentiality:

- short term forecast demand (aggregate or per store)
- aggregate product flow from RDC to store; RDC's inventories
- analytical store sales data

Sharing such information enables them to work together towards a more complete optimisation of the distribution flow, rethinking their management strategies as a whole and not just working on certain specific areas.

### 3.1. Key differences by country

This table presents the synopsis of a very extensive analysis of the grocery supply chain in five major European countries. The numbers, which have been checked with the logistic managers of major European suppliers and retailers, highlight the existing differences between countries. Such differences reflect: consumer demand mix, structure of the industry, suppliers' and retailers' established relationships, service levels, management practices, third parties activities.

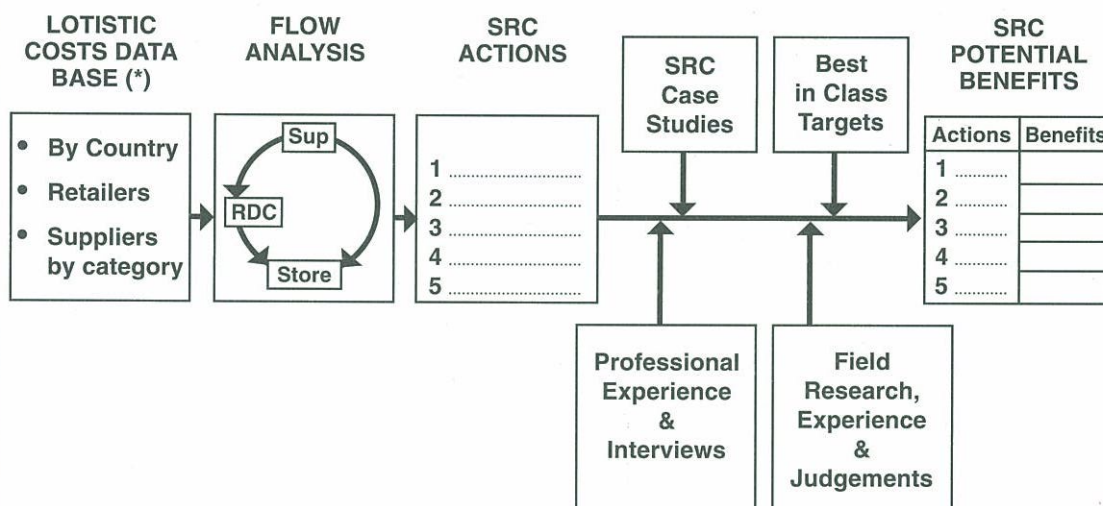


Note: (\*) Suppliers' warehouse + Retailers' Distribution Centres + Stores



Sources: Nielsen Europe, CEE, IGD, Istat, Herb Davies Database, Euromonitor, Euroconfidential, Eurostat, Centro Marca, Data Bank, Point de Vente, Largo Consumo, Internal Data, Interviews with major Companies

### 3.2. How have we measured this?



Note: (\*) Real figures from over 600 Companies, excluding Discounters

**EA (Efficient Administration):** when the supplier and retailer work together to manage the flow of information and documentation, with the aim of reducing:

- zero value added activities (e.g. re-keying data or correcting errors)
- transmission costs (e.g. mail, paper)
- overhead costs (e.g. invoice matching)
- transmission time (e.g. invoice mailing)

In fact the lines between EOS, ER and EA are much less rigid than has been described above. If the logistic flow is to be optimised, it is obvious that the physical flow of goods has to be developed as much as that of information, so EOS and ER cannot be separated from EA.

Even the limits between EOS and ER can sometimes remain unclear. If the Regional Distribution Centre is managed by "cross-docking" with the supplier, as we will see in more detail, EOS and ER can overlap.

It is not by chance that SRC's benefits in operations will be discussed in general. We believe however that the methodological distinction of the three defined areas aids comprehension of the actions and benefits associated with them.

#### TESCO AND BIRDS EYE WALLS CASE

*Birds Eye Walls listened hard to what Tesco had to say and the result was a partnership programme in the areas of logistics, information technology and organisation that has changed the way both companies do business, significantly lowered stock levels and improved customer service ...*

## 3.2. EFFICIENT OPERATING STANDARDS (EOS)

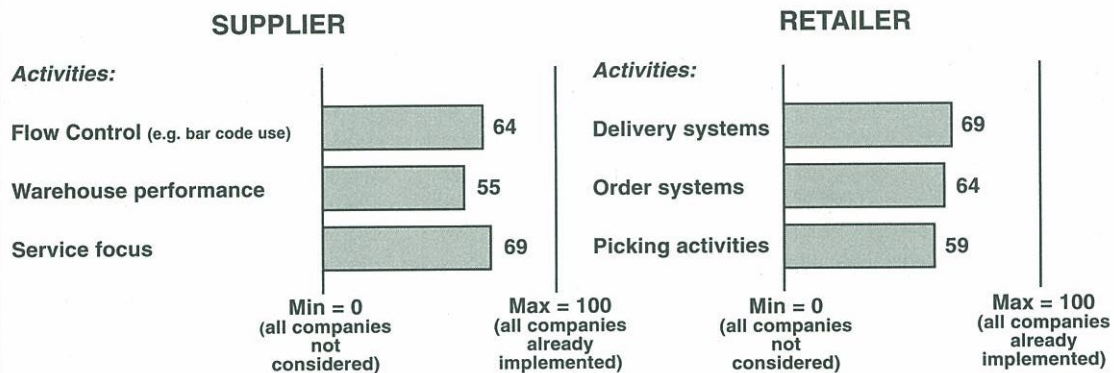
### The present situation

In order to optimise individual activities with a supply chain strategy, the retailer and the supplier have to discuss them together to work out how they can be organised differently and more cost effectively.

The field research carried out has shown that there still remains much room for improvement in doing so (table 3.3). Looking at the data for each country one can see how much more advanced northern Europe and France are in implementing this compared to other countries; and it is not by accident that the former have a much lower logistic cost (from supplier to retailer's RDC to stores) and that logistic flows are more centralised at the RDCs for all kinds of goods (for more details see appendices 1 and 2). In order to analyse what can be done jointly, let us consider, for the sake of simplicity, three main areas for action:

- the physical flow of goods
- the flow of data
- the standard of service

### 3.3. Efficient operating standards: present level of experience on major activities



**Note:** The question was a close one. Answers could be: not considered, in study, being implemented, already implemented.

Numbers are a weighted average of the answers, where 0 is like all companies' answers are "not considered", and where 100 is like all companies' answers are "already implemented".

Source: Field Research

### The physical flow of goods

A) **Centralisation** – If the distribution of products through the RDC costs on average between 9 and 10% at retail price, direct delivery (Direct Store Delivery) is more expensive by about 2 percentage points. The reasons for this are several:

- the flow via the RDC always takes place with a Full Truck Load;
- the point of sale can have much lower stock levels thanks to the high frequency of delivery from the RDC, without additional delivery cost;



- the RDC is more efficient than the warehouse of an individual manufacturer, benefitting from substantial savings on a logistic scale;
- the ability to operate a multi temperature logistic flow permits a greater reduction in the quantities delivered to each store (one full truck load delivers more items, at different temperatures, with reduced quantities per single product) and therefore a reduction of stock in the store.

Obviously there are some exceptions and certain product/POS combinations where direct delivery can be competitive. But they still remain exceptions. In the UK in 1986 only 57% of the total flow went through the RDC. Now this has reached 89%. The same rapid change has been made in France.

There are three main reasons why the other countries have been left behind:

- retailers' lack of resources. Having to plan their own investments, they give precedence to the occupation of territory (new stores) rather than to rationalising the flows (via new and larger RDCs);
- high stock levels in the RDC (partly because of forward buying) with a resulting reduction in manageable flows (and in the rotation of stock and assets);
- formulating transfer costs between supplier and retailer which do not take into consideration, be it consciously or unconsciously, the real logistic costs arising from the different methods of delivery.

Taking joint action on the last two points, would allow for greater centralisation of the flow with a marked improvement in efficiency along the supply chain.

#### TESCO AND BIRDS EYE WALLS CASE

*Tesco decided to consolidate distribution into one central distribution function and to centralise the flow of all goods through their own regional Distribution Centres (presently more than 95% centralisation). Thus Tesco began to take control of replenishing BEW products . . .*

*. . . Some of key benefits of centralisation were continuous replenishment, the ability to know exactly what they were selling and the ability to set up performance measures by product, making suppliers truly accountable for what was delivered . . .*

- B) Primary distribution** - Much of the inefficiencies involved in the flow between the supplier's plant or central warehouse and the RDC can be eliminated by having clearly defined operating standards and working methods decided jointly. Let us review the main areas:
- B.1) Pallet height.** This is one of the most important areas to consider, as it has a great influence on the use of both labour and equipment. All too often, the number of product layers to be put on the pallet are decided by the supplier considering only their own limitations (i.e. the actual height of the racks in the warehouse, the capacity of the palletiser to move the stacks of packaged goods, etc.). It is unusual to find that the supplier has considered in a broader manner what the direct and hidden costs involved in the system are along the total distribution chain and what investment would be necessary to eliminate these limitations.

- B.2) *Pallet's saturation.*** We are talking about how cases fit within the pallet's dimension (80 x 120). Too many products still have a too low saturation of the pallet (in some situations less than 75%). A great deal has been done but much remains still to be done and up to now retailers have too often played a passive role. Rarely does the buyer or the category manager concern themselves with such problems and the logistics are limited only to coping with the problems rather than solving them. Distributing a pallet with 75% saturation along the logistic chain is tantamount to increasing the total logistic costs (stocking, collecting the pallet, loading onto the transport vehicle, transportation unloading and stocking) by 33%.

It is true that the DPC approach should emphasise this problem and it is also true that this approach is rarely used. In most cases, it would be much simpler to do an in depth analysis of all the palletisation charts and begin by working on improved packaging of the products that show saturation levels below standard.

- B.3) *Planning the goods' arrival and unloading at the RDC.*** At present transport costs are heavily influenced by very long waits in unloading the products, owing to a general lack of planning regarding the unloading capacity of the retailer and lack of respect for the time involved on the part of the supplier. Very often the time spent waiting for the truck to be unloaded far exceeds the transportation time. In several countries this fact has assumed worrying proportions. It also causes friction and misunderstanding between the retailer and the supplier's logistic managers, which does not help collaboration.
- B.4) *Cross docking activities:*** cross docking removes a whole series of logistic activities of zero added value in the RDC (transport from the unloading bay to the warehouse, loading onto the rack and off again, transport to the loading bay). At present these activities are justified by several factors:

- time taken between receiving and sending out the goods;
- the need to carry out picking of the products received;
- the need to stock and make the product rotate correctly on a FIFO (First In First Out) basis.

We believe that it is important to look at these points:

- *time taken* – this is often caused not by lack of resources, but by the inability to deploy them correctly. Cross docking requires precision of delivery to “15 minutes”, when, for many companies in this sector, it is difficult to achieve “24 hours” precision. Too few suppliers and retailers plan their own capacity to send and receive goods; too few transport firms have control over where and what their own vehicles are doing. Nowadays the sending out of an Advance Shipping Note is practically non-existent.
- *the need to carry out picking* – the dialogue between the supplier and the retailer often ceases when they have to establish who should carry out picking on the product destined for cross docking and how it should be done. Rather than the normal situation, where the retailer carries out the picking of the product in stock for each individual store, there could be several alternatives:
  1. Picking is carried out in the RDC in a “hot area” where the product delivered in cross docking is placed on the floor. The product would not generally stay in the area for more than 12 hours and very rarely more than a day.
  2. Picking is replaced by sorting the products (so the order is no longer brought to the product but the product to the order): from the arrival area each product is taken directly to the area for delivery where it is redistributed for the individual stores.

3. Picking of the product by store is carried out by the supplier. When the load is received, the mixed pallets or the rolls, which have already been sorted, simply go straight to their respective bays.

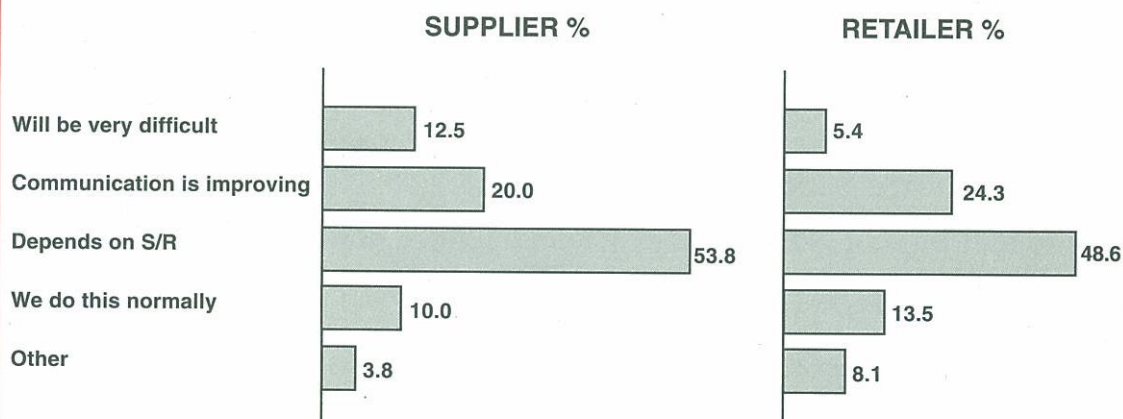
Only in the first and second type of cross docking can the supplier still work with full pallets (the excess product, at the most one single incomplete pallet per product, would be stocked up when picking or sorting was over).

There is still a tendency to put on the pallet only the exact amount required, so as to be able to check this automatically (i.e. at the end of sorting nothing is left and all the orders have been dispatched). This increases the distribution costs for the supplier and they increase dramatically in the case of the third type of cross docking.

When deciding which of the 3 approaches to adopt, the retailer too often forgets about the savings brought about by eliminating the zero value added activities and tries to impose the rules, to the detriment of the supplier. The result in 90% of the cases is that they stick to the old methods and therefore give up cross docking, thereby foregoing savings prudently estimated between 0.3 and 0.5 percent at retail price. This without considering other benefits such as greater freshness of products, better production scheduling, reduced disruptions.

Furthermore, the lack of reciprocal vision about labour productivity and logistic costs broken down by activity, certainly does not simplify the process of discussing and planning new working methods. (At present only 10-13% of participants in the field research state that they regularly exchange data on logistic costs; table 3.4.)

#### 3.4. Willingness to openly discuss logistic costs



Source: Field Research

- *the need to stock and make the product rotate* – uncertainty about what occurs both at the end of the chain, in the store, and at the beginning, at the suppliers, justifies high stock levels at the RDC; (see appendix 3 for the overall situation of the supply chain stock levels, by country). The use of EPoS data to reorder automatically from the RDCs (CAO – Computer Assisted Ordering) is an indispensable way of starting to reduce stock levels substantially and the U.K. example demonstrates it very clearly; greater confidence in and knowledge of the working methods of the supplier will contribute towards reducing the safety stock and the gradual elimination of forward buying (dealt with in the chapter on Efficient Promotion) will eliminate much of the speculative stock.

It is at this point that many products can be dealt with effectively through cross docking within the RDCs.

The use, for a great many products with a medium to long shelf life, of a “programmed FIFO”, which makes it possible to maintain a security stock in the RDCs, and this stock being rotated in an organised and planned way, without giving up cross docking all together, will ease its progressive introduction.

**C) Secondary distribution**

As far as the distribution of the product from the RDC to the POS is concerned there are two main areas for improvement:

- transport
- store departments

**C.1) Transport** – The growing use of special purpose fleets owned by the retailer, along with the construction of composite RDCs makes several changes possible.

- **Multi temperature transport** – it is possible to reduce the size of the quantities delivered to individual stores by increasing their frequency, yet at the same time maintaining a full truck load.

For the retailer with small points of sale/outlets, longitudinal multi temperature transport (i.e. the loads divided into longitudinal compartments, not transverse ones) enables, however, more drops to be made on each journey. It is essential that the manufacturer respect the dimensions of the pallet because of the reduced allowances available.

- **Back loading** – To improve the utilisation and efficiency of their own fleets, a growing number of retailers are spending part of the return journey collecting the product from the manufacturer. Also in this case it demands close co-ordination between the supplier and retailer (in order to minimise the stopping time) and greater clarity about the distribution costs (the buying price will obviously be different).

**C.2) Store Departments** – In reality the product does not get delivered to the individual store but to several departments inside the store. The action of sorting by department done at the outlet requires space and labour. As a product is destined for a specific department, carrying out such an allocation while loading the vehicle does not mean a significant increase in labour and enables zero value added activities to be eliminated at the point of sale. Checking will be much quicker, the product will not be touched again by the workers on unloading but be put straight onto the shelves.

## The flow of information

Improving the flow of goods obviously requires work on the flow of information and the way it is processed. Let us summarise what this involves:

- **EPoS (Electronic Point of Sale) and CAO (Computer Assisted Ordering)**. EPoS data should be used while processing the orders in the RDC. The RDC will know what quantity of each product has been sold and can in its turn place an order with the supplier as suggested by computer, which knows the effective demand and is able to make a more accurate forecast, thus managing the safety stock more efficiently. Only the best retailers in a very few countries already work in this way.
- **EDI orders**. The EDI transmission of orders to the supplier reduces the operating time required for the acceptance of the order, so reducing the lead time. It is already very common in Northern Europe and in France, but still in an introductory phase elsewhere.

- **ASN (Advanced Shipping Note).** The EDI transmission of the ASN, on the departure of the supplier's vehicle, informs the retailer of the estimated time of arrival, which products are missing, and how the order is organised on the vehicle. The latter can plan his resources for unloading the goods, pre-assigning tasks and responsibilities.

It is an essential piece of information for effective management of cross docking at the RDC.

- **Case and pallet bar code.** The use of the bar code on the packaging and on the pallet (moreover, with a note of what and how many products are present on the pallet) is still not so widespread as it should be. The advantages of it being widely used are obvious, reducing the time spent checking the consignment on departure and arrival, simplifying the tasks of picking and making a permanent inventory of the goods in the warehouse.

It is estimated that this brings about overall savings in the supply chain of 0.4-0.5 percent at retail price.

The continuing use of inconsistent standards by the supplier and retailer is the main obstacle to be overcome, especially with regard to the bar code of the pallet.

### The standard of service

Few suppliers analyse with the retailers what the standard of service is, having agreed together what should be measured and how to measure it. Yet this is one of the areas which allows trust and confidence between the managers to build up, so that they can work together successfully on even the most difficult projects.

#### *"DANSK SUPERMARKED & THOLSTRUP CHEESE" CASE*

*... one of the key findings of the project was that the human element is key to its success ...*

### 3.3. EFFICIENT REPLENISHMENT (ER)

Let us refer back to the definition given previously:

*"... when the retailer provides the supplier with other information as well as the orders ... By sharing such information it enables them to work together towards a more complete optimisation of the distribution flow, rethinking their management strategies as a whole and not just working on certain specific areas".*

To be more precise, we will deal with the two areas of most interest contained in this definition:

- what information?
- what management strategies?

Obviously the two questions are closely linked. But for clarity they will be considered separately for the moment.

## What information?

As most of the flows pass through the RDCs, and this amount is destined to increase greatly in the future, information relevant to the improvement of the flow between supplier and retailer is therefore **at an RDC aggregate level** (not the single flow to the store, but the total flow from the RDC).

Disaggregate information at an individual store level is useful only in the third type of cross docking mentioned above, where the supplier carries out the picking for each outlet, or for Direct Store Deliveries (as for example in the cases of "Dansk Supermarked & Tholstrup Cheese" and "Granarolo-Giglio & Coop-Conad").

The retailer should, for this reason, maintain sole ownership of the disaggregate information for the individual stores, which is often considered confidential. In this way it reduces one of the main obstacles in the exchange of data between the supplier and retailer which impedes many of the collaboration proposals.

## What new management strategies?

As the retailer's main objective is to reduce stock levels in the RDC and to increase the standard of service, the first temptation is to reduce the quantities of each order, therefore increasing the frequency of reorders, and also possibly gaining lead time on the delivery.

This has obviously nothing to do with ER. What happens is that a whole series of costs are transferred from the retailer to the supplier but the overall supply chain costs are definitely not reduced; in fact the opposite happens.

To prevent this, it is possible to send the supplier, in addition to the ever more frequent and smaller orders, information about what the retailer's sales forecasts will be for the following weeks, bearing in mind planned promotions, in order to help in the planning of the supplier's own production and stocks. This working approach (adopted in the Tesco & Birds Eye case) certainly comes nearer to a concept of Efficient Replenishment but does not change the substance of things: the retailer places the order and from that point on the supplier does all in his power to send it as quickly and punctually as possible, and in the most complete form possible.

There is not really much room for greater improvement, the only hope being that the order sent off will optimise everything, which is frankly unlikely.

The alternative to this situation is simple in concept and is based on the analysis of the jobs involved in the order cycle. Essentially, the order cycle can be divided into three parts:

- the processing and exchange of information between the retailer and supplier (what and how many products, what time the delivery will be made);
- the processing and exchange of information between the supplier and the transporter (what means of transport, when and to where);
- a series of physical activities (the arrival and loading of the truck, the journey and the delivery).

The physical activities obviously cannot be delayed (if the vehicle is late it has a knock-on effect on the rest). The exchange of information between supplier and transporter requires of course the minimum time available to find a vehicle (no company works at a infinite capacity). **The only information which could be postponed until the moment of loading the vehicle is the decision about how many and what products are to be loaded.** This information is, in fact, the first thing to be mentioned in a normal order cycle and everything then flows from it.

Often several days elapse between when information on the quantities of the load is given and the eventual loading of the vehicle. In the meantime, the outgoing products in the RDC will certainly be different to what was originally forecast and therefore the stock levels no longer match the forecast. If the order could be placed again it would be done differently . . .

At this point the alternative to the traditional order cycle is evident, (the reader is encouraged to read the "Barilla & Conad" case carefully):

- quantify the amount to be sent to the retailer with an algorithm, a few minutes before the forklift driver begins loading the vehicle, based on the real stock in the RDC and the latest outgoing forecasts; the algorithm could optimise a series of variables such as the filling of the truck, the lowest risk of stock outs of the pre-determined products, etc.
- give the supplier a daily update of the inventory, the outgoing products and the forecast outflow from the RDC, so as to minimise the risk of stock-outs at the moment of giving the information about the quantity of the load on the vehicle.

The overall level of stock in the RDCs can be checked by planning the correct number of lorries needed during the period, and the mix will be managed as well as possible by the algorithm. The overall flow can be improved on, (always with Full Truck Loads), the reserve stock at the RDC can be lowered to levels previously unthinkable, and the stock-out can be drastically reduced. A happy world? An intelligent one!

### **Efficient Replenishment and Direct Store Delivery**

In this case the transmission of the stock inventory and sales data for the individual point of sale is vital. The strategy of replenishing is purely "pull". The supplier renews the exact amounts sold in the period between the two deliveries.

Dramatic changes in demand can be managed either by modifying the stock at the point of sale, based on the new forecast of goods being sold, or by modifying the frequency of the deliveries.

This system is conceptually very simple, supported by the flow of EPoS data from the retailer to the supplier.

The logistic costs still remain much higher, however, with respect to the deliveries via the RDCs, because of "less than full truck load" deliveries from the distribution points of the supplier. Furthermore the management of a large number of stores can present serious organisational and managerial problems.

#### **"DANSK SUPERMARKED & THOLSTRUP CHEESE" CASE**

*. . . Two different stores often had very different stock situations due to different ordering styles of the buyers . . .*

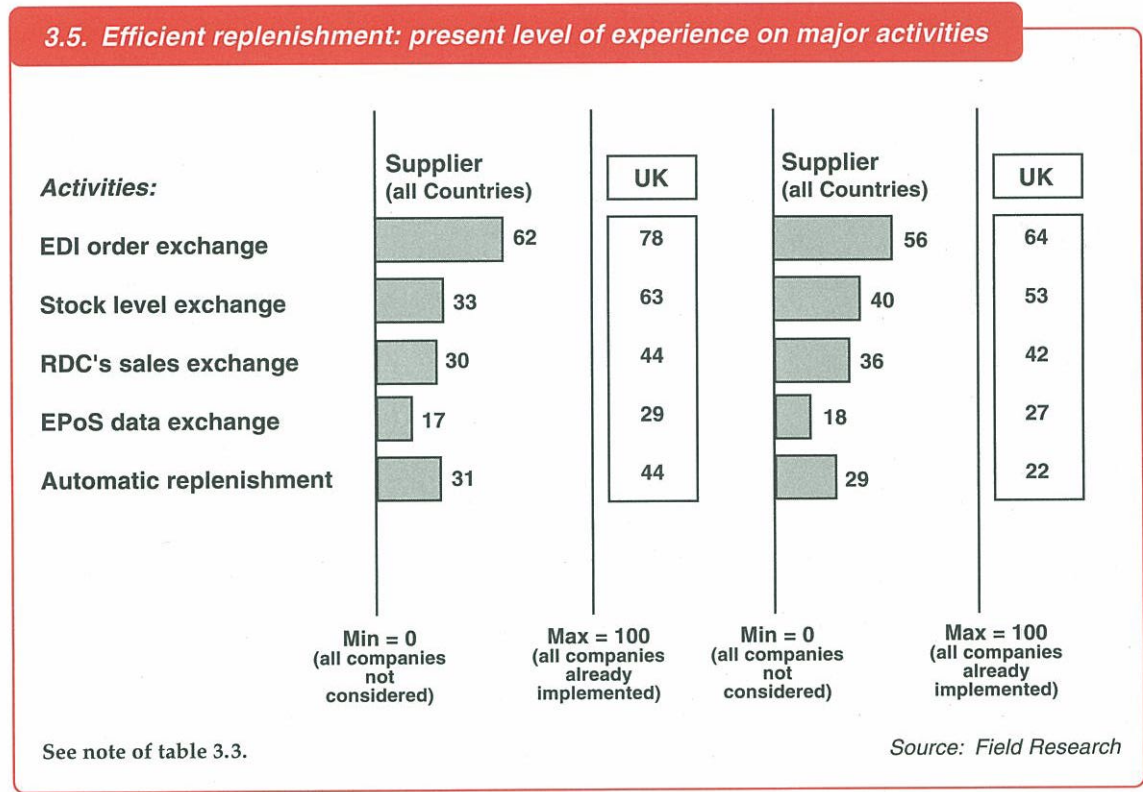
*. . . It takes a significant educational effort to retrain people to change their buying habits . . .*

*. . . It was also clear that sales data and order proposals had to be given on a chain wide basis . . .*

*. . . It would be too complex for the supplier to work out order quantities for each individual store on a going basis . . .*

### Efficient Replenishment in Europe

The present situation highlights a general lack of development concerning ER in Europe, with the exception of the U.K. (table 3.5)



In table 3.6 the field research shows, in order of priority, the expectations of E.R. The suppliers obviously realise that the only alternative to an increase in their costs (smaller and more frequent deliveries with an ever reducing lead time) has been offered by ER, while the retailers recognise the great potential as far as service is concerned. The suppliers are also looking for competitive advantages and better understanding of consumer needs.

**3.6. Benefits achieved / expected with E.R.**

SUPPLIERS	RETAILERS
<ol style="list-style-type: none"> <li>1. Cost reduction</li> <li>2. Better service to Retailers</li> <li>3. Better information flow</li> </ol>	<ol style="list-style-type: none"> <li>1. Better service from Suppliers</li> <li>2. Cost reduction</li> <li>3. Better information flow</li> </ol>

Source: Field Research

There is little information about the problems arising from the implementation of ER, as the projects are all at the initial phase of feasibility studies. The U.K. retailers indicate that the two major problems are the incompatibility of the information systems and the lack of EDP resources.

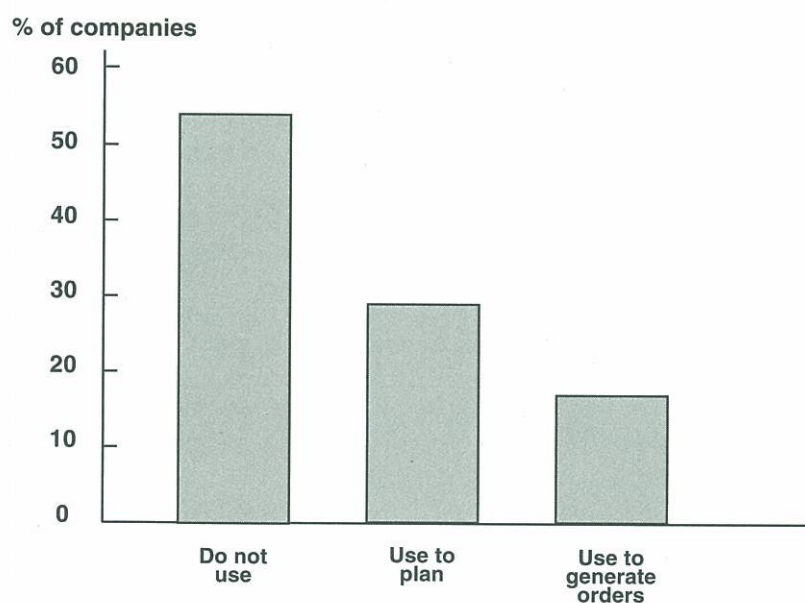


### 3.4. EFFICIENT ADMINISTRATION (EA)

We have already analysed what data is necessary for the supplier and retailer to share in order to bring about effective collaboration in logistics.

The retailer should, however, utilise the EPoS data to improve the management of the physical flow of goods (EOS). Therefore this data has to be collected and processed in the system. The situation in Europe on this front seems in serious need of improvement, (table 3.7), as 54% of retailers claim not to use their EPoS data.

#### 3.7. Present use of EPoS Data



Source: Field Research

Things will, of course, change rapidly in the next few years. To bear this out, one only has to look at table 3.8, where, in descending order of importance, the most important plans that suppliers and retailers have for using EPoS data have been shown.

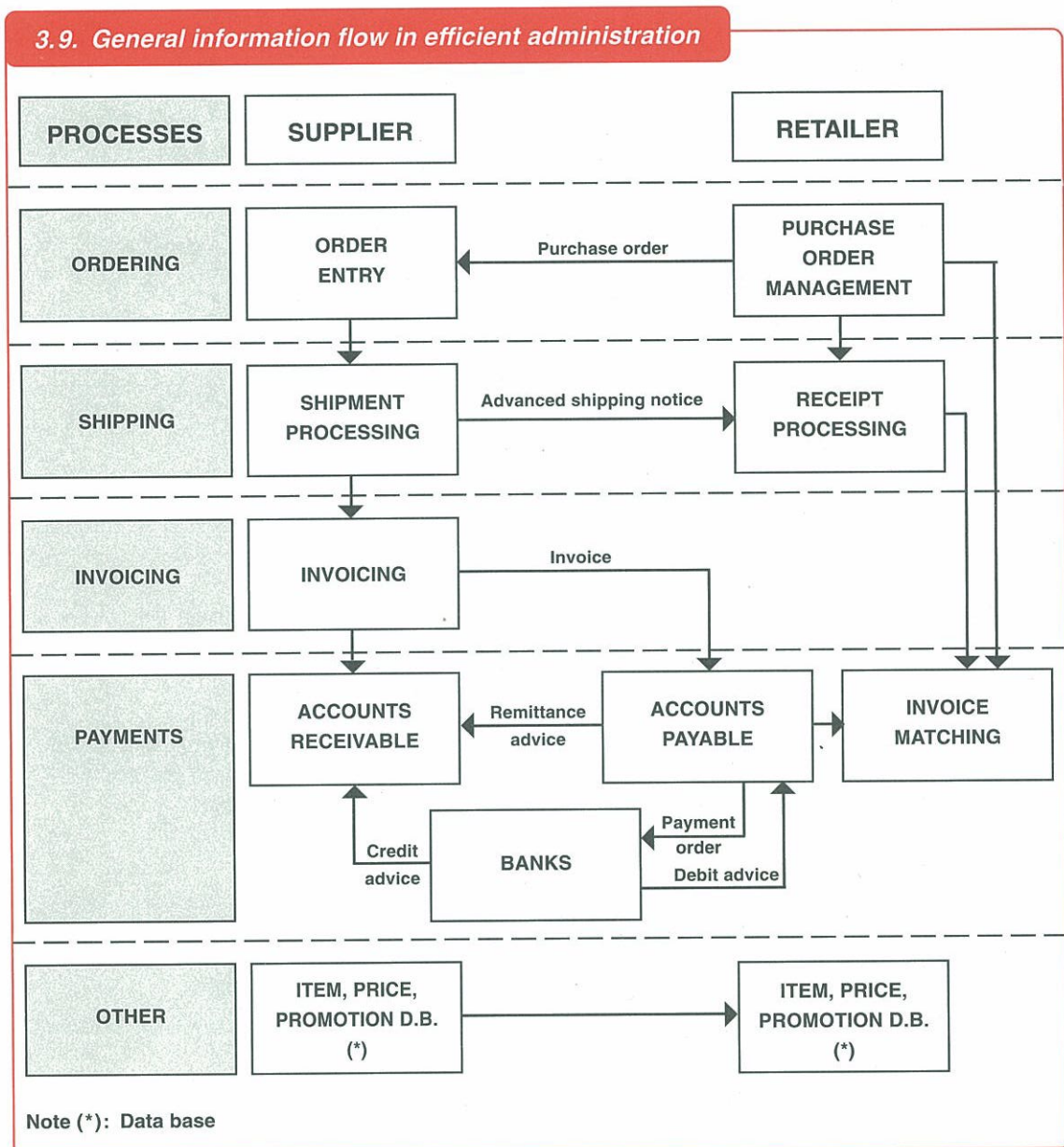
#### 3.8. Future use of EPoS data

SUPPLIERS	RETAILERS
<ol style="list-style-type: none"> <li>1. Better promotional and sales analysis</li> <li>2. Improve sales through segmentation</li> <li>3. Better knowledge</li> <li>4. Product development</li> </ol>	<ol style="list-style-type: none"> <li>1. Sales based ordering</li> <li>2. Efficient replenishment</li> <li>3. Monitoring promotions</li> <li>4. Better assortment planning</li> <li>5. Better forecasting</li> </ol>

Source: Field Research

The passage from the EOS phase to ER requires that the retailer transmit to the manufacturer the stock data, the outgoing goods and the forecasted sales data of the RDC (and in some cases of the individual stores).

Furthermore, there is a flow of data and documentation between suppliers and retailers concerning administration that may not be affected by EOS and ER. EDIFACT catalogues about 34 different types of major messages which are already transmittable in EDI between several companies. We have focused our research on those that belong to the following key processes: ordering, shipping, invoicing, payments and items/price data base maintenance. This last area is not to be forgotten especially when promotions create a vast turbulence of such files. Moreover, a very high reliability of items and price data base is a prerequisite to all forms of SRC as shown in table 3.9.



For each of these processes the benefits and problems regarding joint projects to reduce zero added activities, transmission costs, the overhead costs and the transmission time of documents have been analysed. We suggest that the reader should look closely at the analysis of the "Asko & Procter Gamble" case, which focuses on these aspects.

## Key findings

Table 3.10 shows the benefits and problems encountered by suppliers and retailers taking part in EA projects.

<b>3.10. EA: Benefits and problems</b>		
	<b>SUPPLIERS</b>	<b>RETAILERS</b>
<b>BENEFITS</b>	<ol style="list-style-type: none"> <li>1. Improved speed and error reduction</li> <li>2. Better understanding of customer requirements</li> <li>3. Cost reduction</li> </ol>	<ol style="list-style-type: none"> <li>1. Reduction of paperwork, staff, errors</li> <li>2. Better security of data and accuracy</li> <li>3. Better administration for quicker billing</li> <li>4. Cost reduction</li> </ol>
<b>PROBLEMS</b>	<ol style="list-style-type: none"> <li>1. Lack of transmission standards</li> <li>2. Lack of willingness to adopt EDI</li> <li>3. Internal integration with EDP</li> <li>4. Insufficient critical mass</li> </ol>	<ol style="list-style-type: none"> <li>1. Lack of standards</li> <li>2. Lack of critical mass</li> </ol>

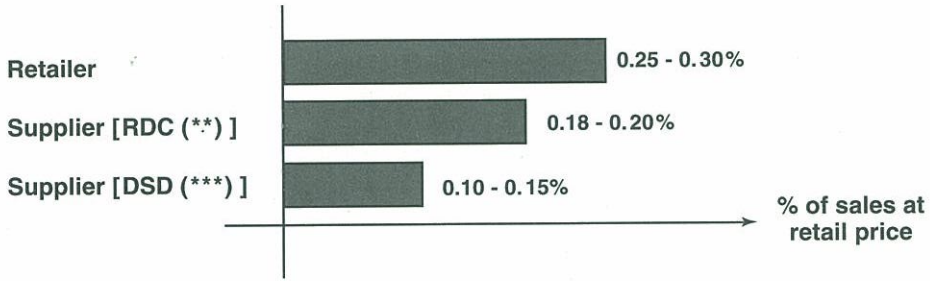
*Source: Field Research*

The reduction of costs using EA seems much less than in other areas of collaboration, but is sufficiently significant to guarantee a rapid return on investment (small percentage returns in large companies mean great overall savings).

The following have emerged from our analysis:

- the overall savings (supplier + retailer) can reach up to 0.5 percentage points at retail price, net of the costs of transmission via third parties (which is the norm);
- the split of benefits between the supplier and the retailer is shown in table 3.11.
- the division of benefits by nature and by process is shown in tables 3.12 and 3.13. The benefits for the retailer are brought about by labour saving, and by financial saving for the supplier;
- on evaluating the costs and benefits one should consider not only the tangible but the intangible aspects as well. Amongst the benefits one must include better relations between the two partners, simplification and re-engineering of internal processes, and innovative image. The need for cultural change, the modification of the present procedures, and the development of a climate of "collaboration" with the counterpart must and be included in the costs;
- the quality of internal administrative processes improves enormously with paperless transmission of the documents. It is no accident that in large multinational companies EA is being considered at an international level, linking together information from several subsidiaries with the purpose of allowing a more rapid and high quality exchange of documents;
- incremental investment in the exchange of information is relatively low, compared to average spending in IT in the retailing business, where IT is a competitive weapon anyway.

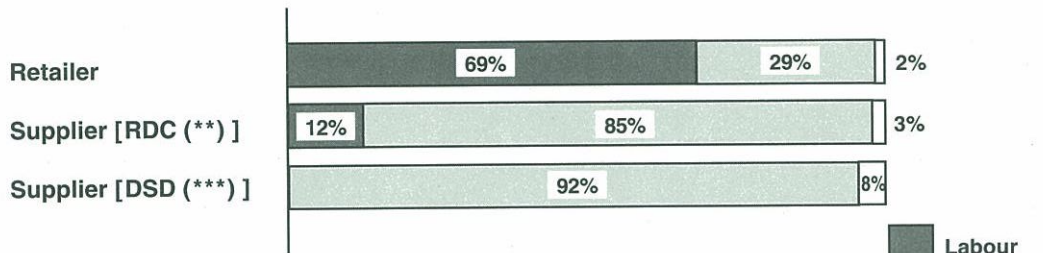
**3.11. E.A. Estimated Savings (\*)**



Note:  
 (\*) Net of transmission costs  
 (\*\*) Regional Distribution Centre  
 (\*\*\*) Direct Store Delivery

Source: GEA

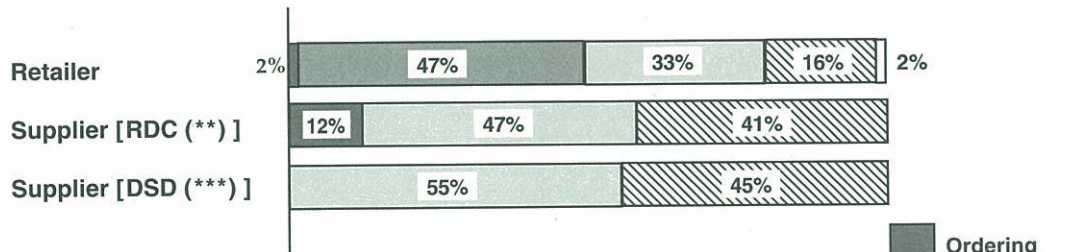
**3.12. EA: Split of savings by nature (\*)**



Note:  
 (\*) Gross of transmission costs  
 (\*\*) Regional Distribution Centre  
 (\*\*\*) Direct Store Delivery

Source: GEA

**3.13. EA: Split of savings by process (\*)**



Note:  
 (\*) Gross of transmission costs  
 (\*\*) Regional Distribution Centre  
 (\*\*\*) Direct Store Delivery  
 (\*\*\*\*) Item, price, promotion Data Base

Source: GEA

### 3.5. SRC IN OPERATIONS: CONCLUSIONS

#### Overall Benefits

The benefits gained from collaboration in the area of operations depend on the different situations present in Europe. This subject has already been discussed above and is further analysed in appendix 3. In Europe there are very many different situations in the type of supply and demand of products and services within the grocery trade and this is reflected inevitably in the "modus operandi" throughout the supply chain. It would take a long time to list why there is such lack of homogeneity within Europe, but it is essential to take this into consideration when dealing with benefits.

Two distinct situations in Europe can be identified where the distribution costs (from the supplier's central plant/warehouse, through the RDC to the retailer's store) seem to be significantly different:

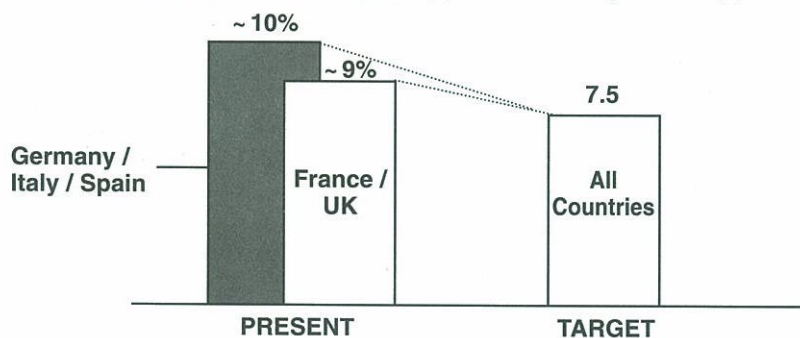
- an "advanced" situation, where most of the concepts mentioned in the EOS and EA sections are already operational, at least in part. This is typically the case in U.K and France. The total supply chain costs represent about 9% of the retailer's sales;
- a "traditional" situation where the concepts of EOS and EA are disregarded for the most part and the overall costs reach the threshold of 10% of the retailer's sales. This is the case in Germany, Italy and Spain.

This fact, borne out in full by the field research, means that the benefits in each country gained by SRC in operations would obviously be different. **Complete implementation would bring the overall cost down to a common European value of roughly 7.5 % of the retail price.**

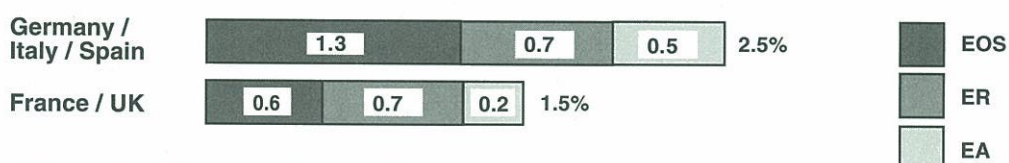
The overall picture of the benefits is shown in table 3.14.

#### 3.14. SRC in Operations Benefits

- The "target" supply chain costs (\*) (Supplier + Retailer) will be approx. 7.5% of retail price



- Cost reductions will depend on countries:



Note:

(\*) Include Handling, Transport, Stock, Administration for both Suppliers and Retailers along the chain:  
Factories – Regional Distribution Centres – Stores

Source: GEA

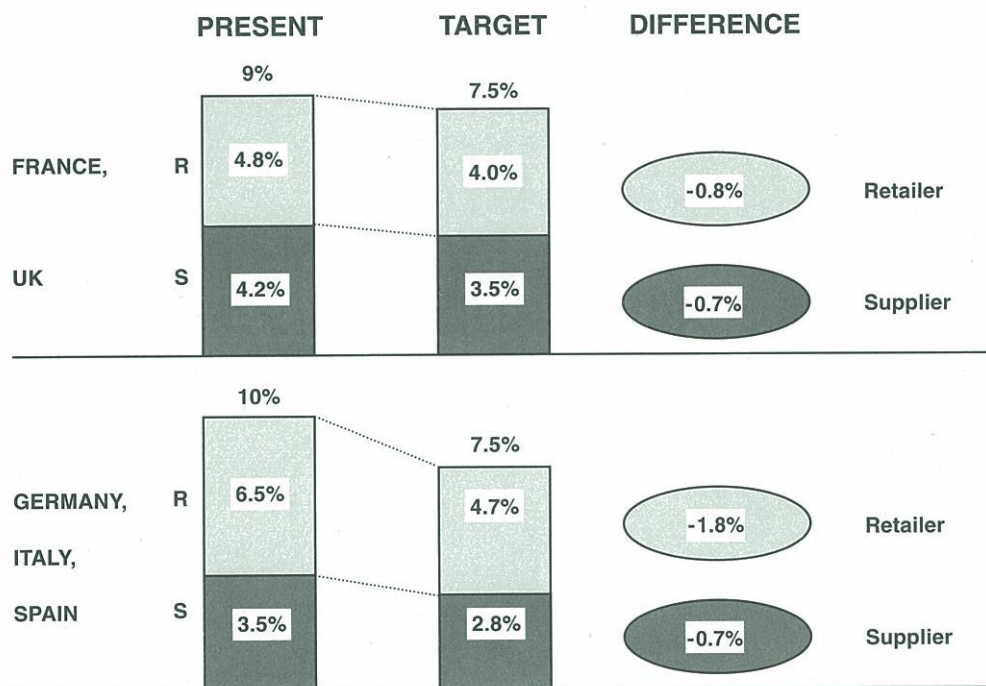
Only the benefits gained from Efficient Replenishment are the same for all countries, as even in the more advanced countries in this area the projects under way are still only at a research/ experimental stage (in the field research there are only 28 projects documented which can be classed as being fully operational, and another 38 still at an experimental stage).

As regards EOS, appendix 3.1 gives a summary of the main benefits of each specific action, showing how they are split between the supplier and the retailer. The final evaluation takes into consideration not only the analytical evaluations but also the experiences and examples seen in Europe, and it should be considered as a “realistic and prudent” evaluation. The benefits attainable through growth in the flows via the RDC have not been included.

As far as EA is concerned the main savings will be made in countries where the EDI flow is still small. These savings are reduced proportionally with the increase in the exchange of data already present in the more “advanced countries”.

The sharing of benefits is illustrated in table 3.15. In the “traditional situation” typical of countries like Germany, Italy and Spain, the retailers will get better returns than the suppliers. This is because of their present lack of logistic development, which allows them to make substantial gains by fully implementing EOS.

**3.15. Split of supply chain costs (%) (\*)**



Note: (\*) Include Handling, Transports, Stock Administration for both Suppliers and Retailers along the chain: Factories – Regional Distribution Centres – Stores

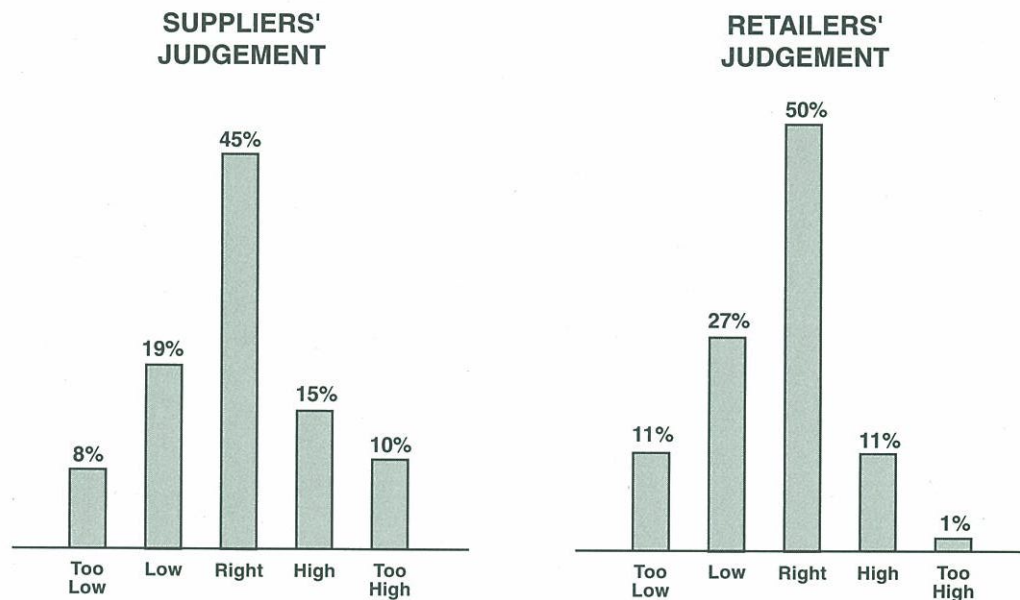
Source: GEA

The split of benefits regarding ER is much more balanced, equal to about 50% for both the supplier and retailer, as ER has a much greater effect on the primary flow (between supplier and RDC, involving both the supplier and retailer) than on the secondary flow (between the RDC and the store, obviously only involving the retailer). On the whole, the participants' judgement of the evaluation of the benefits achievable with SRC in operations is in line with own own (table 3.16.).

## Assets

Better use or rotation of company assets has not been taken into consideration when evaluating the benefits. Let us look at a concrete example. Once EOS and ER are in full operation, the stock of both supplier and retailer will change from the present levels (an average of about 40 days in Europe (table 3.1.) for details see appendix 3 – table A3.3) to 18-20 days. As regards benefits we have only considered the smallest financial investments in stock possible. But if the stock is reduced by 50% it means the RDC will have a capacity possibly double what it is now, and will therefore be able to manage a growing volume of traffic without any added investment. Also the store will not have the need for large backroom areas to handle the incoming goods and stock, leaving more room for selling space.

### 3.16. SRC Benefits in operations: Retailer's & Supplier's judgements



Source: Field Research

## Investment

We have specifically not mentioned investment up to now and we have not discussed topics such as automation of picking and sorting of products which certainly impose heavy investments on the logistic structure but which are not related to SRC in operations.

The only investments to be made are those concerning the movement of information (EDI, systems and software) and the change of attitude and culture of personnel (training, a motivating example, incentives, etc.).

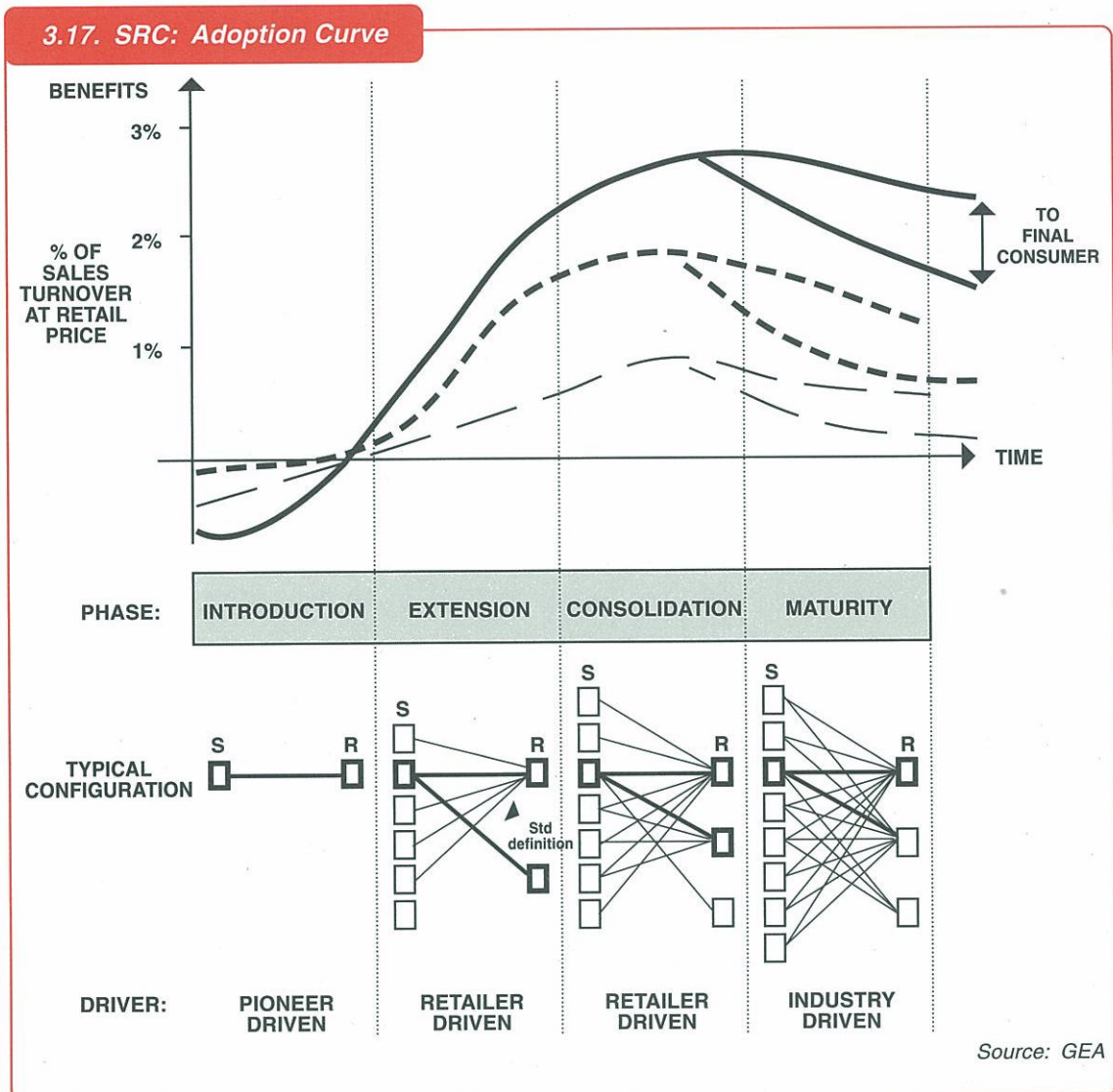
We are convinced that SRC in operations (and we will see that the same goes for marketing), is made up of a lot of software and "brainware" and of very little hardware. So, is this a good thing? It surely must be for the financial manager, but it is a challenge for management who have to change their own and their organisations way of thinking.

### The adoption process and curve

The benefits of SRC in operations can be attained by the majority of the companies in this sector. There are no significant entry barriers apart from those of a cultural or organisational nature. However before the benefits become apparent the individual company has to reach a minimal critical mass. Only when the quantities dealt by SRC reach 20 to 30% of the overall flow will the benefits materialise. It is however very important for the company to move towards attaining this critical mass as quickly as possible. This means that large companies will be the best partners in the initial phases of introduction and extension, because they give their counterparts the opportunity to reach the critical mass with less effort.

The general process of adoption is described in table 3.17 and is divided into four separate phases:

- A) **Introduction phase** – This is led by a few pioneers, who decide to experiment with collaboration. The experience they gain indicates the potential for collaboration and starts to create a more positive culture within the organisation, but their efforts still have not produced tangible benefits.
- B) **Extension phase** – The retailer wishing to reach the critical mass and needing to set a standard with which to treat all its own suppliers encourages the extension of collaboration to other suppliers.





The pioneering supplier, who is also keen to reach the critical mass seeks to involve other retailers. Obviously he proposes the original standard which will be discussed and perhaps agreed upon with the new retailer.

- C) *Consolidation phase* – By now this sector has realised the importance of collaboration. The pioneering retailers have probably already consolidated the project with the most important suppliers and will benefit from a substantial competitive advantage over their competitors.
- D) *Maturity phase* – The whole sector has adopted SRC in operations. At this point competition reduces the final price for the consumer, who can finally take advantage of least part of the benefits already reaped by suppliers and retailers. The degree will depend upon the competitive situation in each country.

The first two phases are usually slower than the second two.

On average it takes from 6 to 18 months to move from one phase to another, depending on the relations between the supplier and retailer, the existing culture of management, the technological infrastructure present in the country, etc.

It is likely that between one phase and another there will be periods of stalemate. The extension of SRC requires a cultural and organisational change within organisations, and consequently a “battle between old and new”. This topic will be taken up again in chapters 5 and 6 but it certainly could create friction and resistance to change.

### 3.6. THE INFORMATION TECHNOLOGY REVOLUTION

Throughout this report the importance of information technology’s role in SRC in operations has been emphasised several times. We believe however that it is essential to spend some time exploring this subject in more detail, examining the present situation, obstacles, trends and guidelines for development.

#### Information Technology’s role

Information Technology (IT) is one of the most important levers for the development of Supplier Retailer Collaboration. For a long time EDI technology has enabled the new area of “Inter-Organisational Systems” (automated information systems shared by two or more companies) to develop. These systems mean that organisations can increase their competitiveness working together, outside the limits of their own company, with their own clients and suppliers.

Even though, in some ways, all the areas of collaboration dealt with in depth in this report, are interdependent with IT, the role that they play could be totally separate: in some cases almost marginal and in others absolutely essential.

In order to understand the role of IT better, it is a good idea to consider two important components:

- a – the technical component
- b – the organisational component

The various forms of collaboration can therefore be analysed with regard to the relative weight, along a continuum, of these two elements (table 3.18).

### Collaboration of a principally technical kind (automation)

EA and EOS come under this heading, being based on the sharing of an EDI information solution through the exchange of a large volume of non-confidential information.

This type of collaboration is founded, in its most basic form, on the building up of a computing infrastructure for the interchange of information, but being able to achieve, in its more complex form, development and management of joint applications.

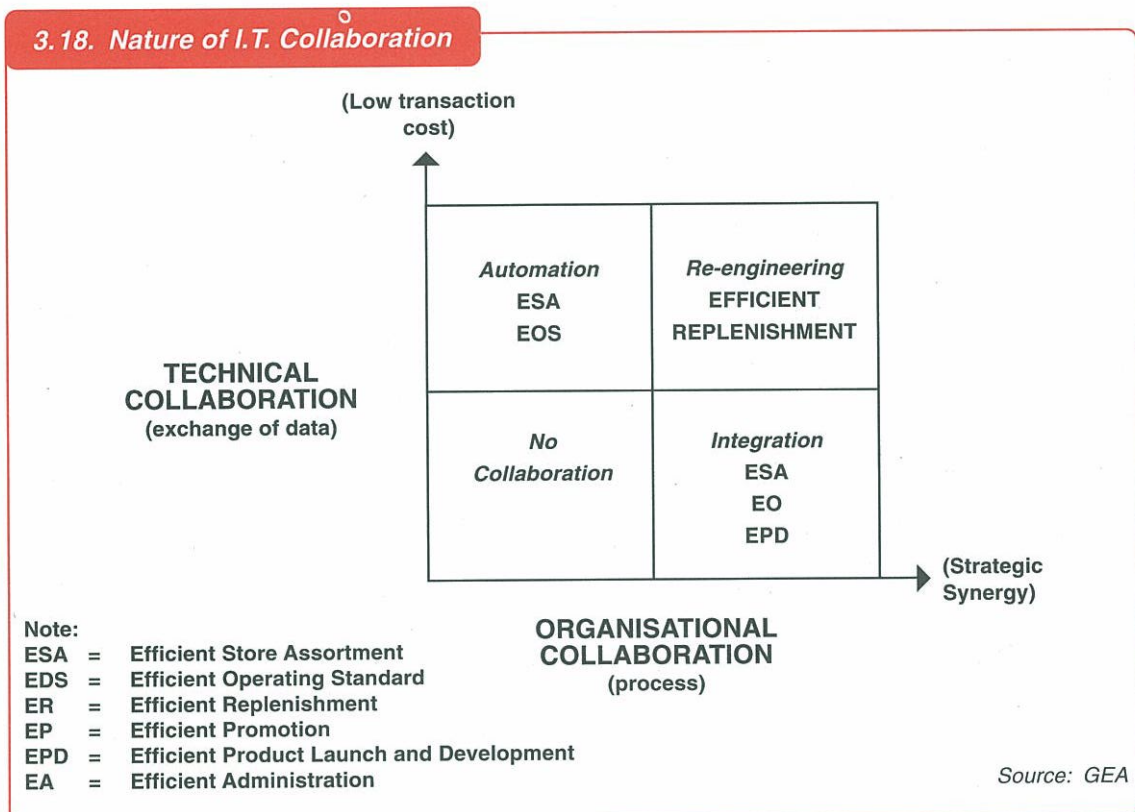
### Collaboration of a principally organisational kind (integration)

Efficient Promotion, Efficient Store Assortment and Efficient Product Development come under this heading as they require close organisational and strategic integration through the exchange of a limited volume of information which is mainly confidential.

This form of principally organisational collaboration aims to pursue a common vision and strategy concerning the sales side rather than the reduction of costs. It develops by setting up and adapting business procedures, mechanisms of co-ordination and new decision making procedures that may or may not come about with the help of IT.

### Collaboration of both a technical and organisational kind (re-engineering)

ER comes into this category as it requires the sharing of logistic procedures through, apart from anything else, the interchange of high volumes of proprietary data. This form of collaboration tends to include both research into greater efficiency in operations and the sharing of a common strategic approach. It involves completely new forms of collaboration made possible by the joint and synergistic application of computing and organisational solutions. According to the analysis carried out, the most consistent economic advantages of SRC (which depend, however, on the state of development of collaboration) occur in this situation.



## The EDI situation in Europe

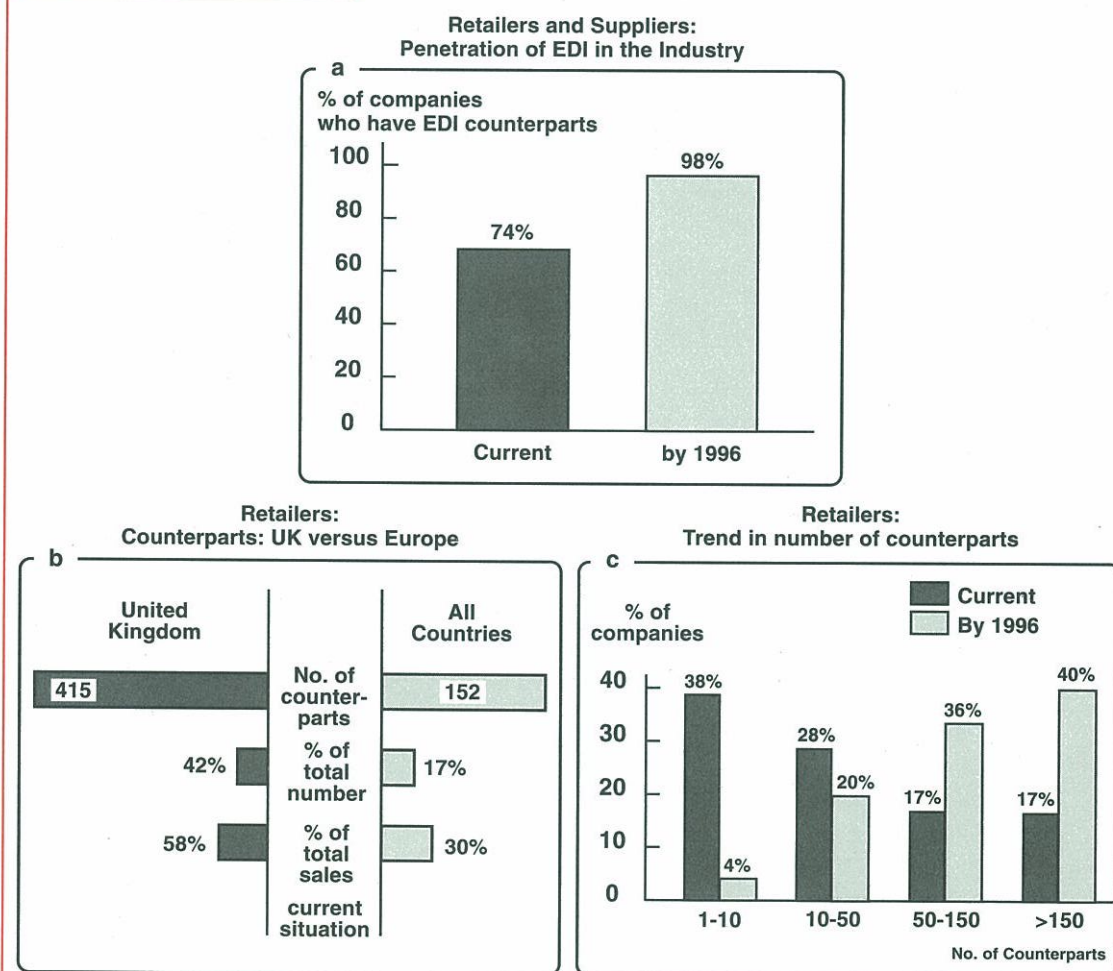
The retailing sector, extended to include its suppliers, constitutes one of the most advanced areas in the use of EDI. Research reveals that over 70% of the participants already have EDI technology in their possession and that this number will increase to nearly 100% of the whole sector by 1996 (table 3.19 a). The U.K., followed closely by France, stands out and certainly constitutes the benchmark for all the other countries. The widespread use of EDI is much less developed in Germany, Italy and Spain.

The majority of electronic trade done by the retailers is presently still limited (with once again the exception of the UK) to the largest suppliers. The assimilation of technology and its effective use are still in great need of development (table 3.19 b).

The availability of technology does not automatically mean a real use of it: transmission of the most important documents (see table 3.20 a) is still very limited (table 3.20 b) even if the forecast of its development is very optimistic (table 3.20 c).

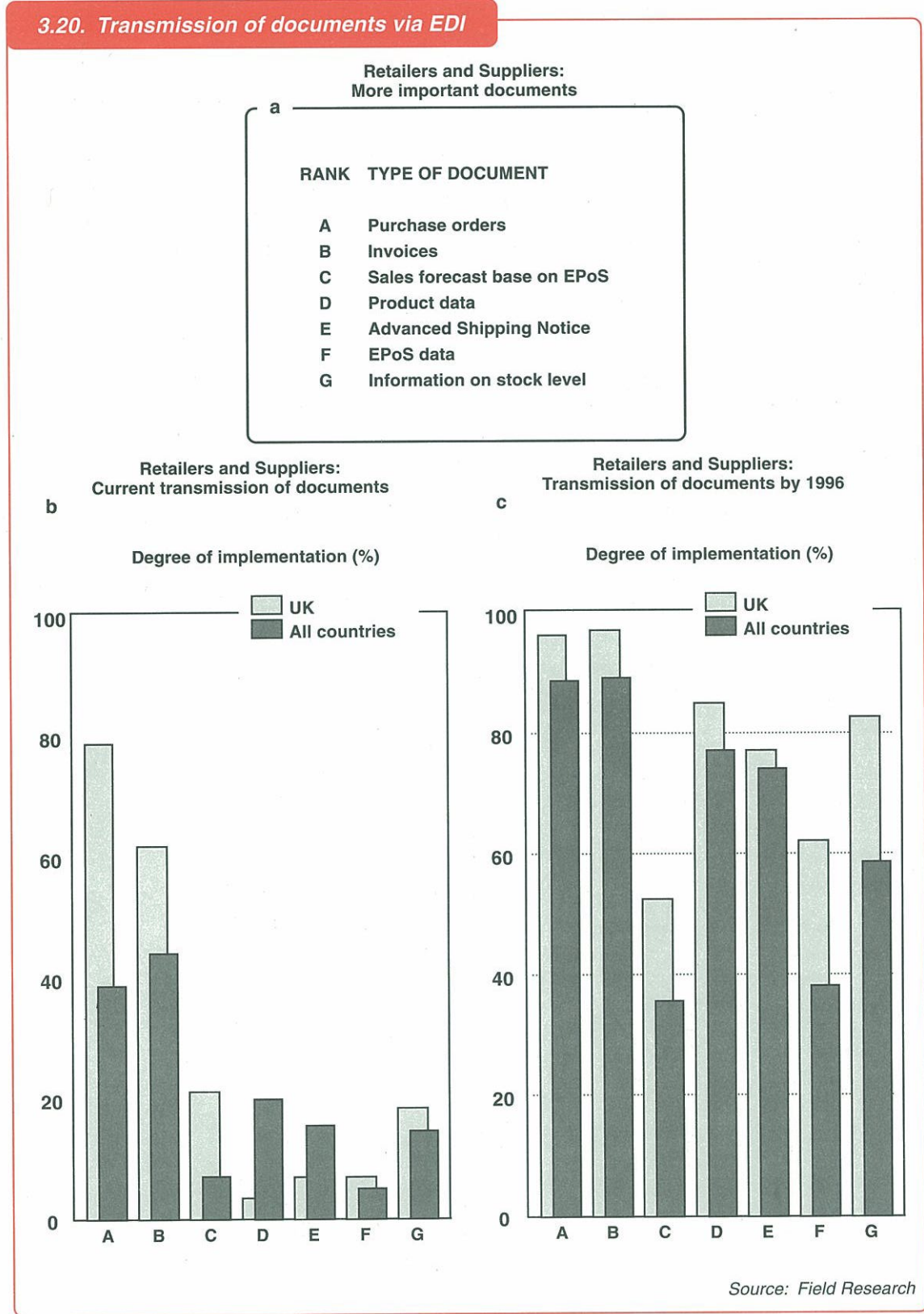
There is no doubt that retailers, keen to reduce operating costs, have the most to gain from EDI, whereas the suppliers are rather swept along, being more interested in greater organisational and strategic forms of co-operation. The encouragement of the widespread use of EDI is led by the retailers who are aiming towards linking up with as many suppliers as possible (table 3.19 c).

### 3.19. EDI Counterparts



Source: Field Research

3.20. Transmission of documents via EDI



The basic criteria in the choice of a EDI counterpart depend mainly on the turnover (volume of interchange) and their competence (attitude). The suppliers are also particularly concerned with the compatibility of the systems in order to reduce the diversity of the interfaces (table 3.21).

### 3.21. Selection criteria of EDI counterparts

SUPPLIERS	RETAILERS
<ol style="list-style-type: none"> <li>1. Turnover</li> <li>2. Willingness to adapt or change</li> <li>3. Systems compatibility</li> <li>4. Cost-benefit analysis</li> <li>5. Two ways exchange</li> </ol>	<ol style="list-style-type: none"> <li>1. Turnover</li> <li>2. Current level of skills</li> <li>3. Attitude of counter parts</li> <li>4. EDI volume</li> <li>5. Organisation structure &amp; skills</li> </ol>

*Source: Field Research*

## Main obstacles to the adoption of an EDI system

In relation to other information systems EDI is a relatively simple form of technology. It does not present particular problems as far as concept is concerned but its implementation is not that easy all the same. The main difficulties emerging from the research all relate, in fact, to the implementation phase (see table 3.22). These are:

- *An insufficient critical mass*

For many companies the lack of a significant volume of counterparts remains the main obstacle thus encouraging a "wait and see" attitude: "we will not join the game until it becomes interesting". This problem is particularly strongly felt in countries where EDI is just being set up. The basic difficulty is that certain large players, with a solid competitive position, are reluctant to start because inevitably all the work they have put in will benefit other companies as well. On the other hand, the smaller players who would have the most to gain from starting, in order to improve their competitive position, may not have the capacity to mobilise a significant number of counterparts. It is inevitable however, that the main retailers must be the ones to catalyse the process, relying, if necessary, on third parties to speed up the time involved. By doing so, they will still have the opportunity to lead the development of EDI and to have control over the "ownership of benefits" with regards to their competitors, at least in the first phase.

- *Lack of an EDI standard*

As has already been pointed out the technical architecture supporting EDI is relatively well known and simple, but what still needs consolidating is the adoption of a standard of reference for the whole sector. In fact, whilst in the pioneering countries the domestic standards still remain (TRADACOMS in the UK, SEDAS in Germany and Austria, GENCOD in France and Belgium), in the countries which have only recently starting using EDI the standard EDIFACT is gaining ground. Even though the process will be very gradual there seems to be no doubt that the use of the UN/EDIFACT standard, because of its recognised international standing and the consequent economy of use, will spread progressively at the expense of the other national or private standards.

3.22. Obstacles to EDI adoption

<b>ABSOLUTE DEGREE OF IMPORTANCE (*)</b>	<b>(No high obstacles!)</b>	
	<b>HIGH (&gt;2.3)</b>	
<b>MEDIUM (1.7-2.3)</b>	1.77 Difficulty in estimating benefits (S>R)	2.16 Insufficient critical mass (S<R) 1.86 Lack of EDI standards (S>R) 1.83 Inflexibility of MIS (S>R) 1.81 Agreement with counterpart (S>R) 1.78 Lack of EDI resources (S>R)
	1.74 Internal organisation problems (S>R)	
<b>LOW (&gt;1.7)</b>	1.67 Complex organisational structure (S>R) 1.64 High initial investment (S<R) 1.55 Lack of top management vision (S=R) 1.53 Lack of bargaining power (S=R)	
	<b>CONCEPTUALISATION</b>	<b>IMPLEMENTATION</b>

Note:

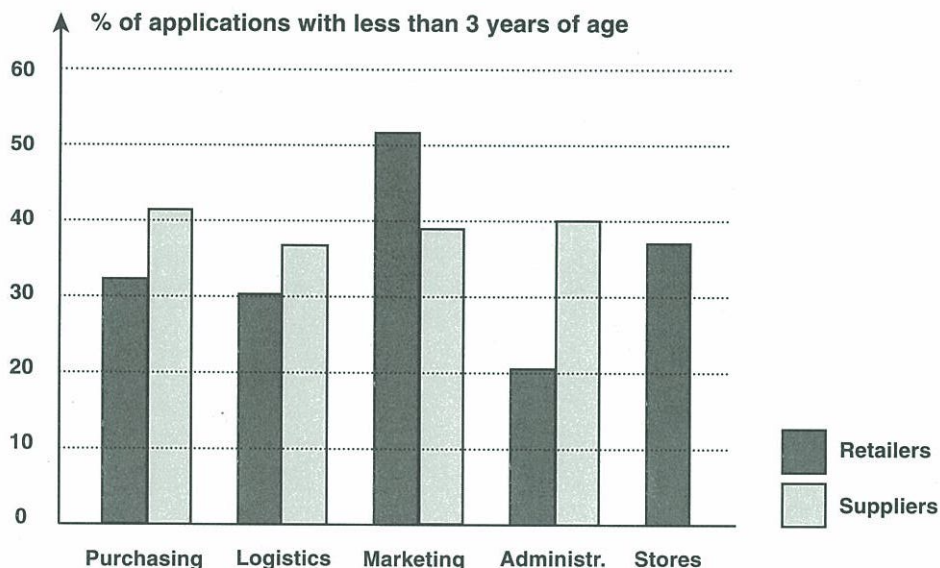
(\*) The values low, medium, high have been translated into numbers and weighted in a 1-3 scale

(\*\*) S> = <R shows relative importance for Suppliers (S>R) or Retailers (S<R) Source: Field Research

- *The inflexibility of the existing information systems*

The emergence of EDI has put the abilities of companies to adopt and assimilate the new IT to the test. Apparently however, the main difficulties concern the need to re-examine the existing applications and adapt or transform it to meet the new requirements. Research shows, through the analysis of the general age of the applications (table 3.23), that despite the noticeable effort being made to renew systems, there is still a great deal of room for development. Moreover, the companies are spread right across the spectrum: alongside those companies who have renewed their portfolio recently there are less favourable sectors (small firms or less technologically developed markets e.g. Spain).

**3.23. Age of applications (\*)**



Source: Field Research

**Driving forces for the development of EDI**

Not only technological, but also economic, legal and organisational factors must be taken into consideration for the growth of inter-organisational systems. The main driving forces emerging from our research, listed in descending order of importance (table 3.24) are as follows:

**3.24. Most important factors for EDI development**

	France	Germany	Italy	Spain	UK
● Industry climate	●	●	●	●	●
● Standardisation	●	●	●	●	●
● Top management vision	●	●	●	●	●
● Availability of accurate data	○	●	○	○	●
● Investments	○	○	●	●	○
● Benefits sharing	●	○	○	●	○
● Process re-engineering	○	●	○	○	○
● Internal MIS	○	○	○	●	○
● New technologies	○	○	○	○	○
● Existence of Third Parties	○	○	○	○	○
● Reduce legal barriers	○	○	○	○	○

● Retailers    ○ Medium    ○ Low

Source: Field Research

- *Industry wide commitment*

The full benefits of supplier retailer collaboration cannot be realised without active involvement of a majority of players. While many companies have made significant progress in working with their trading partners in one on one alliances, an industry wide commitment will significantly accelerate implementation and the realisation of benefits.

- *Standards*

Significant barriers to collaboration are caused by the lack of industry standards for EDI. When this problem occurs it is necessary to involve internal MIS heavily to define and maintain point to point transactions.

- *Top management commitment and vision*

Without strong leadership, commitment, and vision from the CEO it is difficult to implement supplier retailer collaboration. Only the CEO has the power to break down the organisational barriers that impede progress. Collaboration is successful when the CEO has the foresight to see that the competitiveness of the company can be greatly enhanced if suppliers and retailers work together to serve the consumer better. This kind of vision gives collaboration some kind of shape.

- *Data accuracy and availability*

If the message conveyed is not reliable, for whatever reason, it will be very difficult to obtain the benefits expected. Scarce availability of data, because of poor MIS or inflexible organisational practices, can also inhibit collaboration.

- *Investment and costs*

Investment is not relevant at an early stage. PC based solutions can be purchased for less than 20,000 ECUs. It may become significant depending on the volume, level of sophistication and internal integration involved. A reduction in the cost of communication should accelerate the adoption of EDI.

- *The share-out of benefits*

The win-lose approach adopted in the past makes it very difficult for the operational and strategic benefits of SRC to be understood and accepted. (This is obviously the case as far as small companies are concerned). It also seems difficult to initiate collaboration when it is not clear when the benefits will become manifest.

- *Process re-engineering*

The implementation of EDI is often better accepted when it does not imply any process redesign but only automation of that already existing. On the contrary, to utilise EDI really effectively the processes may need total re-engineering, and this will certainly be one of the new challenges to be faced in this area.



- *Internal MIS*

In the early stages MIS is not critical if third parties are fully involved. When it is necessary to integrate the document received or transmitted into the internal application or when transactions become more sophisticated, then the role of MIS will become more significant and can sometimes become a serious bottleneck in implementation of EDI.

- *New technologies*

The development of new and less expensive technologies and platforms will most certainly accelerate the diffusion of EDI.

- *Third parties*

As mentioned above, third parties play an important part in EDI development, especially in the early stages when it is necessary to establish the system and overcome technological difficulties. Third parties bring different benefits to different types of company: a single connection for a variety of destinations, time independence, standards, facilities and so on.

- *Deregulation*

What is meant here by deregulation is the ability to transmit all types of documents electronically without constraints. An important extension of this concept is the ability to store the documents received electronically avoiding paper duplication. Only when this occurs can the benefits of electronic transmission be fully reaped.

## **Trends and guidelines for development**

The role of I.T. in companies, whether they be retailers or suppliers, is assuming a growing relevance, being at the heart of the main innovations for increasing competitiveness. This growing importance demands greater effort and investment in developing new architecture and information applications.

As regards the retailers, the cost of I.T. as a percentage of sales is still put, on a European average, at 0.7%, while the cost per employee is equal to about 1,200 ECUs (non weighted average). This data show an annual increase of about 15% in the last three years.

Data concerning suppliers show an average I.T. cost of 1.3% of turnover, a less meaningful result considering the diversity of companies involved. There are many implications to indicate that this spending trend should continue for the near future or even develop further.

The main areas for commitment seem to be applications and inter-organisational systems concerning collaboration between suppliers and retailers. One of the areas for greater development should be the integration of front end data (scanned data) with applications concerning purchases, logistics and marketing.

The main benefits will be obtained where the re engineering of processes occurs alongside the renewal of information systems. This will require a very marked improvement in the capacity to manage complex projects through the integration of functional, technical and organisational skills present in the companies concerned. Involvement and commitment at top management level are of fundamental importance as is the ability to develop and share a common vision with their counterparts.



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## COLLABORATION IN MARKETING



- 4.1 Introduction
- 4.2 Efficient Store Assortment (ESA)
- 4.3 Efficient Promotion (EP)
- 4.4 Efficient Product Launch and Development (EPD)
- 4.5 SRC in Marketing: conclusions



## CHAPTER 4: COLLABORATION IN MARKETING

### 4.1. INTRODUCTION

Collaboration in the marketing area is normally focused on the improvement of sales and margins rather than cost cutting. This should have the following results:

- a greater ability to seize new profit and growth opportunities in areas of activity already under collaboration, therefore without any extra investments or research;
- the opportunity to reduce costs in the supply chain by rationalising the resources invested in promotion, merchandising and product development.

The logic of this type of collaboration is that by combining the abilities of both supplier and retailer and by co-ordinating their actions a synergy will be produced which will improve the effectiveness of the individual partners.

The three areas of marketing collaboration discussed in this report are:

**ESA (Efficient Store Assortment):** When supplier and retailer work together to define store assortment in order to maximise efficiency and profitability of space.

**EP (Efficient Promotion):** When suppliers and retailers work together to plan and/or implement promotions so that excess costs are reduced and the promotion results are improved.

**EPD (Efficient Product Launch and Development):** When suppliers and retailers work together to develop new products and plan product launches in order to reduce the failure rate of new products.

We will first give an analytical description of these marketing areas, (also including a discussion of opportunities to produce private labels). Possible pitfalls, overall benefits and the necessary conditions for implementation of this type of collaboration will be discussed later on in the chapter.

### 4.2. EFFICIENT STORE ASSORTMENT (ESA)

#### Definition

The optimum management of assortment is defined as a series of activities and decisions undertaken by the retailer to maximise sales, margins and consumer satisfaction in a specific category of goods.

These include:

- space allocation
- product location
- product range or assortment
- pricing
- quality/price/consumer need role played by various brands and the relative positioning of private brands
- display characteristics (number of facings per brand/item and their position on the shelves).

Work on assortment, generally carried out by the retailer only, will produce many more benefits if done in collaboration with the supplier.

The main reason why this type of collaboration is effective is that the specialised product know-how and consumer knowledge of the supplier is brought to bear on an area where the retailer's knowledge will always be comparatively limited or generalised. This collaboration does not, however, limit the possible decisions made by the retailer but increases their category management abilities.

#### PROMODÈS-BSN CASE

*Promodès, with its division of Continent Hypermarkets and BSN with its Alsacienne biscuits division have launched a pilot collaboration project in merchandising. The biscuit market was chosen because of great dimensions (great potential benefits), highly segmented as far as needs are concerned and with a very large and differentiated offer (need for rationalisation and comprehension), with many suppliers and frequent out of stock situations.*

##### Key rules were:

- neither side is allowed to question the commercial terms first stated
- both sides accept to revise their own merchandising policies

##### Key activities were:

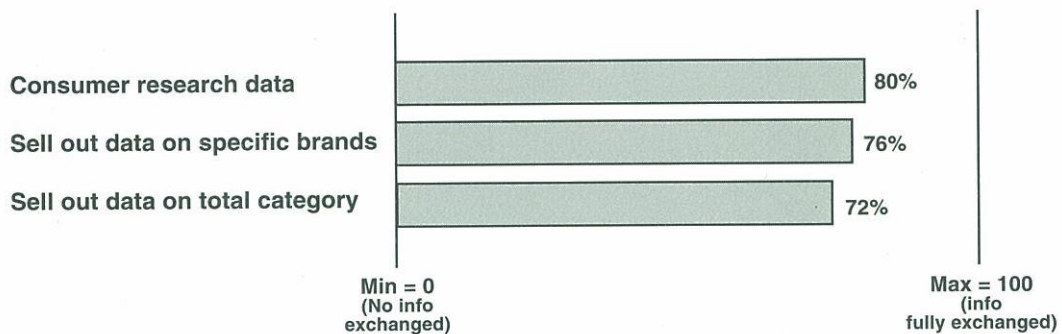
- comprehension of consumer needs and segments
- space organisation by testing layouts and shelf positions
- training of sales force and heads of department

*As a result the category turnover increased by 11.5% and the profit margin by 5%*

## Main Actions

Collaboration in store assortment starts when the retailer and supplier share information about the market analysis, the different needs of the consumer and about how the products present in the category satisfy different groups of consumers. The field research data show that this information is already being shared together (table 4.1).

### 4.1. Information exchanged at present



Source: Field Research

The next step in the process of redefining assortment consists in sharing and understanding the different strategies and aims of the two partners regarding the category. Collaboration is built on the points in common between the two strategies.

The work involves the development of new common objectives based on a closer understanding of the needs of the consumer. From an analysis of the consumer needs and the new definition of the category objectives, the following may emerge:

- the present range does not entirely match the consumers needs
- there are better alternatives for the size and positioning of the categories within the store
- the shelves can be organised more effectively in terms of the number of facings per product and their position.

It is possible to have different levels of collaboration between retailer and supplier, from the optimum design of the shelf to the implementation and joint control of activities in the store.

### **Requirements**

Successful collaboration in efficient store assortment does not require a great deal of financial investment.

Extra activities are required to:

- carry out some supplementary market research compared to that normally done by both partners in order to understand the behaviour of the consumer at the shelf
- carry out parallel tests at several stores in order to verify the effectiveness of the different assortments
- use computer aids to evaluate the profitability of the different lines proposed
- train field personnel

In order to carry out these tasks a certain amount of time on the part of the managers of the two organisations is required. A team which is competent in marketing, merchandising and layout should be formed, made up of representatives of both partners. It is also essential to involve the supplier's sales force and the retailer's staff as their daily commitment will be the overriding factor in the success of the new assortment.

Another feature of the work on assortment is attention to and monitoring of stock-outs. That is why the team will need not only to have accurate systems for forecasting sales by SKU but will need to integrate logistics in order to stock the shelves to suit the consumer needs.

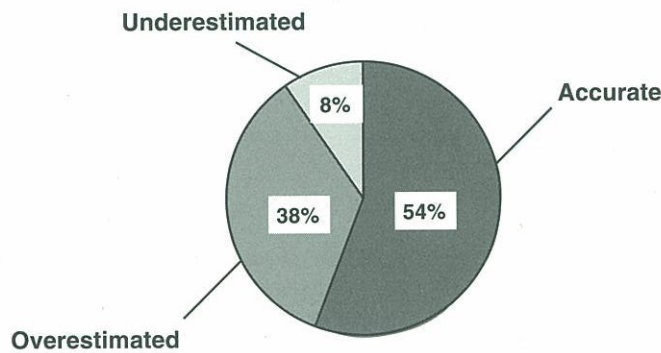
Single collaboration projects can take place within the organisational structure of the retailer without the presence of a Category Manager. However, there is no doubt that their presence helps both when carrying out a single project and when extending all types of possible collaboration to the category as a whole.

### **Benefits**

The results of this kind of collaboration vary according to the kind of category under redesign and the starting points of both parties. The results emerging from the cases of collaboration analysed in the course of the project are on average about a 10% to 15% increase in sales and an increase in gross margin of about 5% to 7% of the whole category concerned. This is valid for both the retailer and the supplier.

The reaction of the firms participating in the field research is shown in table 4.2.

#### 4.2. Reaction to estimate of benefits (\*)



Note (\*): benefits estimated as follows: sales + 10-15%, gross margin + 5-7%

Source: Field Research

However, besides the benefits directly measurable in terms of sales variations and profit margins, collaboration on assortment encourages improvement in monitoring and forecasting sales by SKU, and replenishing stocks in order to minimise stock-outs.

#### How to select a category for collaboration

The criteria for defining the priority given to projects is similar for both the suppliers and retailers (table 4.3):

#### 4.3. Selection criteria of categories for collaboration on assortment

1. Strategic importance of category
2. Sales and margin potential
3. Complexity of market
4. Stability and high volume
5. High number of suppliers
6. Categories under performing

Source: Field Research

- *The first* criterion is obviously the strategic importance of the category in terms of role in the retailer's assortment and in the supplier's portfolio.
- *The second* is the potential for growth of the category. This is measured in terms of market share and unit margin compared with competitors.
- *The third* involves the complexity of the category both in terms of interpreting consumer needs and in the number of items and vendors. SRC partners find it useful to work together to sort this complexity out.



## How to select a collaboration partner

When selecting a partner for collaboration, both suppliers and retailers consider of prime importance the positive attitude of the counterpart and the constructive climate between the two firms (table 4.4.).

### 4.4. Selection criteria of counterparts for successful collaboration on assortment

SUPPLIERS	RETAILERS
<ol style="list-style-type: none"> <li>1. Attitude of Counterpart</li> <li>2. Expertise of Retailer</li> <li>3. Importance of Customer</li> <li>4. Suboptimal store assortment at present</li> <li>5. Centralised decision making process</li> <li>6. Store level implementation discipline</li> </ol>	<ol style="list-style-type: none"> <li>1. Attitude of counterpart</li> <li>2. Importance of supplier</li> <li>3. Expertise of supplier</li> <li>4. Leading brand</li> <li>5. Profile within the category</li> <li>6. Different partners for each category</li> <li>7. Private Label opportunities</li> </ol>

*Source: Field Research*

Second and third selection criteria for both groups are the same: the size of the counterpart and their know-how.

For suppliers, the retailer's ability to implement decisions at a store level is very important; in fact, store managers and sales people must handle effective assortment and space allocation decisions every day.

The retailer tends to collaborate mainly with one supplier for each category. Work on the assortment requires both time and money and would become too demanding if it were repeated with others.

The selection criteria of partners change, however, according to the category: they can either be the leader of the category or a second brand with a suitable profile within the category strategy.

Retailers believe it is important to have different partners in different categories to avoid excessive dependence on just a few vendors.

#### COOP SWITZERLAND-NESTLÉ CASE

*COOP had identified the instant coffee category as an area for collaboration because of its large absolute size, potential for product innovation and competitive situation. Although COOP was a leader in this category, the market share of the main competitor was growing because COOP did not fully match needs in the low priced segment beyond the brand name field. When COOP decides to collaborate in a category it looks for a partner whose branded products are highly appreciated by a large number of consumers. The partner, together with COOP, is ready to invest heavily in the category and considers the partnership as a long term strategic alliance. Furthermore the partner must be willing to accept COOP's strategy to develop its private label business to enable COOP full access to the needs of private consumption. And, finally, the partner must be willing to exchange data and engage a real collaboration . . .*

*For Nestlé, collaboration with COOP was an excellent opportunity to improve its market position, optimise its return on trade investment, and improve its understanding of retailing techniques better to serve its customers.*

### 4.3. EFFICIENT PROMOTION (EP)

The collaboration between supplier and retailer on promotions can occur at three levels:

- the development of sales through joint consumer promotion (integrated consumer promotion);
- cost reduction through the use of more rational consumer promotional techniques (efficient couponing and elimination of special packs);
- the reduction of speculative purchasing which hinders efficient logistic programmes (efficient forward buying).

Let us look at these in more detail:

#### Integrated consumer promotion

Planning and implementing consumer promotions jointly means:

- working together to define the aims of the promotion
- working together to prepare for the implementation of the promotion
- submitting the different types of promotion to field tests
- analysing the results of the promotion together and planning improvement based on accurate data

The benefits of this kind of collaboration are based on two fundamental assumptions:

- If carried out in an uncoordinated way, the promotional activities of one or more suppliers and the retailer can clash, whereas if they are co-ordinated the benefits of each one should increase.
- The pooling of the partners' abilities produces far better and more creative methods, improves the chances of success and increases control of results.

#### HAKON GROUP – COCA-COLA CASE

*... Coca-Cola and Hakon Group jointly set objectives for their new approach to Marketing. Specifically, they decided to implement a process to make use of all the marketing vehicles available to accelerate growth by joining resources and following a single strategic idea. This included working together to define and execute promotions, merchandising, advertising and space management.*

*The process development started with the identification of the market potential and key issues. Then came the phase of joint planning: setting strategies, objectives and specific merchandising and promotion activity.*

*The evaluation of the activities implemented is based on sales generated, in store execution, and costs. The evaluation is fed-back into the system for future improvements.*

#### Main Actions

A selling team from the supplier, including key accounts, marketing managers and merchandising specialists, should work closely with their counterparts in charge of purchasing, promotion and merchandising if this form of collaboration is to be successful.

Generally their tasks involve:

- identifying strategic issues and objectives of promotion
- evaluating market potential and effectiveness of actions
- agreeing on marketing strategy and defining the common objectives of the promotion
- developing a joint promotional plan
- defining the performance measuring criteria
- submitting different concepts to tests
- jointly launching the plan and programme
- maintaining close co-ordination during the execution of the plan
- gathering and evaluating results

## Requirements

Collaboration need not be global to be desirable, as it is possible to collaborate either completely on the entire promotional plan of the category, as in the Hakon Group - Coca-Cola case, or on only a part of one's promotional activity, as shown by the Caprabo-Gallina Blanca case.

### **CAPRABO-GALLINA BLANCA CASE**

*Caprabo, a supermarket chain in the region of Barcelona, and Gallina Blanca, pet food division of Ralston Purina found that collaboration in promotion could satisfy their objectives: Caprabo wanted to increase its store traffic and Purina to increase consumption of industrial pet food.*

*Caprabo and Purina knew they had to offer pet owners unique promotions and/or personalised service. Together they agreed to build a shared database which they could use for direct marketing activities.*

*... The partners ran a direct mail program to all Caprabo magazine subscribers.*

*Database participants will receive a coupon allowing them to buy 3 varieties for the price of two. This offer will be unique to them since the products will be sold on shelf at full price.*

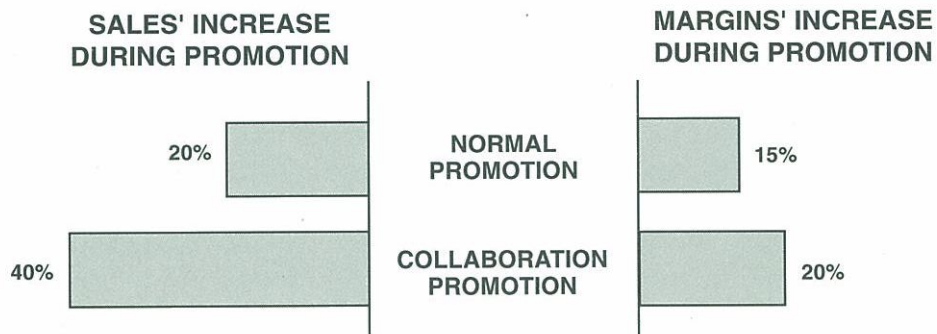
## Benefits

Compared to a situation in which the supplier and the retailer conceive and implement promotions autonomously, collaboration presents a series of specific advantages:

- the promotional activity that is carried out in the stores is more efficient if it is co-ordinated between the different categories and between the products of a category (e.g. better scheduling, different promotional concepts throughout the year for different products, etc.).
- working together on promotions allows the two partners access to a greater number of promotional tools (e.g. promotions with products of other firms, promotions aimed at consumer groups frequenting a specific store, etc.).
- joint testing of different types of promotion or analysis of the results enable the parties to choose the most effective technique and improve the planning of successive promotions

Generally, the results of the promotions carried out through collaboration are very encouraging. Many firms in the field research believe that this kind of promotion can achieve an increase in sales which is double that of promotions developed individually (table 4.5). The overall increase in gross margins is shown as lower than the increase in sales, due to implementation costs or lower prices.

#### 4.5. Difference between "normal" and "collaboration" promotion



Source: Field Research

Besides the quantitative benefits, the research has pointed out substantial benefits in the area of mutual relations (table 4.6).

The involvement of field personnel, be it of the supplier or retailer, is essential for collaboration success.

Due to the nature of the activity, partners usually give mutual exclusivity at least for the period of the promotion.

#### 4.6. Difference between "normal" and "collaboration" promotions: further benefits

SUPPLIERS	RETAILERS
<ol style="list-style-type: none"> <li>1. Better relationship</li> <li>2. Cost reduction through better forecasting, planning and space utilisation</li> <li>3. Better focus on promotional activity by retailer</li> <li>4. Substantial competitive advantage</li> </ol>	<ol style="list-style-type: none"> <li>1. Closer working together</li> <li>2. More involvement of our own staff</li> <li>3. Further Supplier assistance</li> <li>4. Learning of new techniques</li> </ol>

Source: Field Research

## Efficient couponing and elimination of special pack

*Coupon-based promotion* is little used in Europe (as compared to the United States). Nevertheless, we recommend the adoption of some rational principles to minimise problems and costs associated with this type of promotion.

### Main actions

The following actions are advisable:

- standardise the size of the coupon for easy processing
- simplify the format, clarify offer and expiration date
- apply codes to coupon and scan coupons where possible
- process redemption directly between the partners via EDI, avoiding costs of outside clearing houses.

### Results

These actions should have the following results:

- savings due to a reduction in misredemptions
- a reduction in the fee the supplier pays to the retailer for costs associated with processing the coupons
- supplier saves the cost of using a clearing house to process coupons

*The promotions which use special packaging* are a source of inefficiency along the whole supply chain.

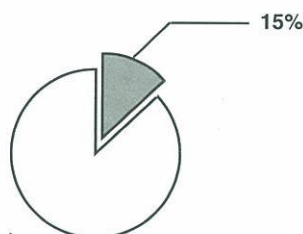
Promotional variations of the packages range from "on-pack" gifts or banded coupons to variations in the weight and of the product offered.

This kind of promotion entails extra production storage costs for the supplier as compared to the normal line of production. For the retailer it entails the addition of new references to the items list, and therefore, shelf space dedicated specifically to these and more stock in the warehouse.

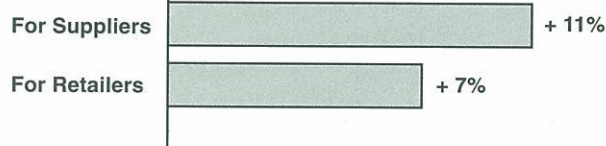
The field research has shown that retailers generally do not like this kind of promotion and both retailers and suppliers claim that these promotions create problems with space allocation, coding, handling and generate a loss of revenue. The research also gives an estimated percentage of the incidence of special pack sales table (4.7) and the extra cost incurred for both suppliers and retailers.

#### 4.7. Impact of special pack promotions

Percentage of sales of special pack



Extra cost due to special pack



Source: Field Research

## Main Actions / Results

The use of special pack promotions should be eliminated and be replaced with equally effective alternatives that do not generate extra costs. This can be done by a shift to new promotional techniques developed together with the retailer.

For 15% of the products that make use of special pack promotions the supplier could save 11%, by eliminating the incremental cost of goods, extra warehousing and holding.

The retailer saves 7% on warehousing and holding costs and, what is more, on special pack damage/theft, especially in the case of large or awkward on-pack gifts.

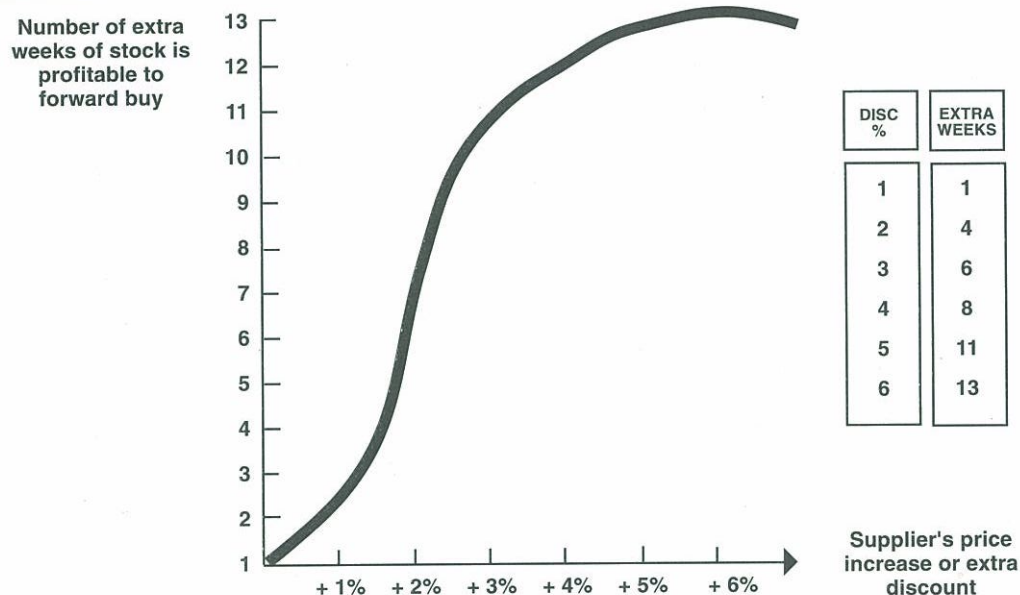
## Efficient forward buying

To minimise the effect of price increases or to take advantage of particular discounts offered by the supplier, it is economically convenient for the retailer to buy a greater quantity of merchandise than that normally bought to meet sales. In fact, when the offer is over or the price increased the retailer will continue selling with the new price products that were stocked in the warehouse at a lower price. By acting in this way they will have gained a higher margin than that obtainable through a purchasing activity based only on what is sold. They also sustain extra costs (these will be discussed later on) but their overall balance will still be positive. The retailer who cannot take advantage of this "bargain" will lose out against competitors.

This activity, known as Investment Buying or Forward Buying, has the disadvantage, however, of building up unnecessary stocks in the operative cycle along the supply chain. In particular, programmes of Efficient Replenishment are made impracticable. Furthermore, production is made irregular and unbalanced, generating further inefficiencies at factory level.

The activity of forward buying varies greatly between countries, categories and types of trade. It is also affected by inflation and interest rates. On average it represents 20% of extra stock at the warehouse of the retailer. However, there are higher levels in France, (where the market is very aggressive and there is considerable promotional activity), and also in Italy and Spain. The levels are much lower in Northern Europe where speculative buying occurs on only a few products and those with proven high levels of return on investment.

### 4.8. Forward buying at different level of discount price increase



Note: Example based on a value of 1000 ECUS per pallet and internal rate of return of 18%

Source: GEA

## Main Actions

Elimination of forward buying can take place in the categories where programmes of efficient replenishment are carried out. This can happen without creating any competitive disadvantage to the two partners.

Once the internal rate of return for the retailer has been determined (for example 18% in table 4.8), the number of weeks of stock which it is profitable to buy is defined by a mathematical formula as a function of the price increase or the discount offered.

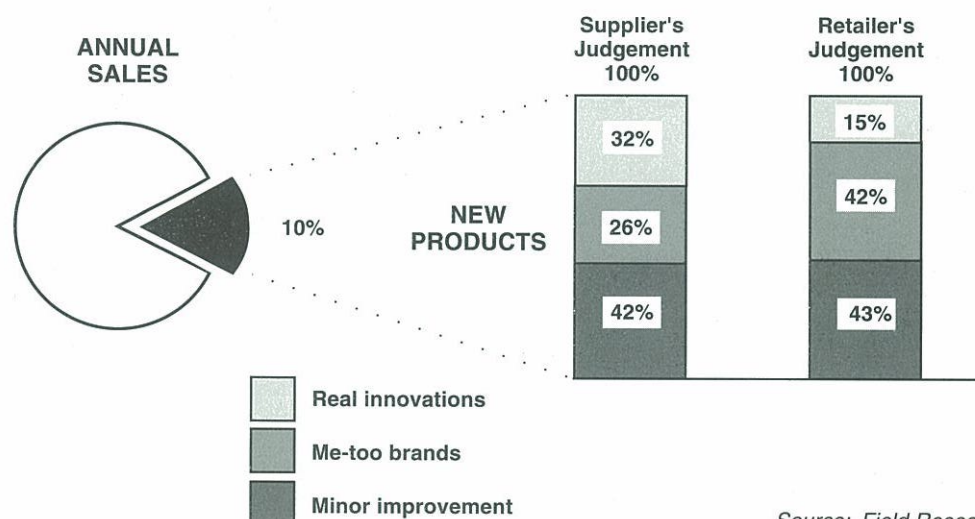
In order to eliminate forward buying without any competitive disadvantage, independently of the delivery of the merchandise, the alternatives are:

- after the end of the offer, the supplier continues to sell at the old price or the same discount for a number of weeks, as defined by the formula;
- the retailer immediately orders the total number of weeks defined by the formula at the old or discounted price, paying according to the usual terms, just as if they were to withdraw the merchandise, but as far as operations are concerned, continuing to receive the goods only on the basis of their sales.

## 4.4. EFFICIENT PRODUCT LAUNCH AND DEVELOPMENT (EPD)

The introduction of new products is an activity of high added value in the supply chain. It reinforces the position of the supplier as compared to his competitors, enriches the process of purchasing at the retailer's store and offers the consumers more suitable solutions to their purchasing needs. However, it is a very costly activity in terms of basic research, product development and distribution costs (e.g. listing fees and maintenance of minimum stocks along the whole chain). The activity of product introduction is very intense; the estimates made by the participants in our research show the incidence of sales of new products at 10% per annum (table 4.9).

4.9. Quantity and level of innovation of products launched



A large number of launches however (70-85%) are evaluated as “me too” products or minor improvements and therefore of no real extra value for the consumer. If one also considers that many launches fail within two years, the importance of improving the process of introduction of new products is evident. The process of development with leading suppliers and retailers collaborating can occur at three levels:

- the launching of new products
- the development of new products
- the development and production of Private Labels

Let us look at each of these in more detail.

### Collaboration in Launching New Products

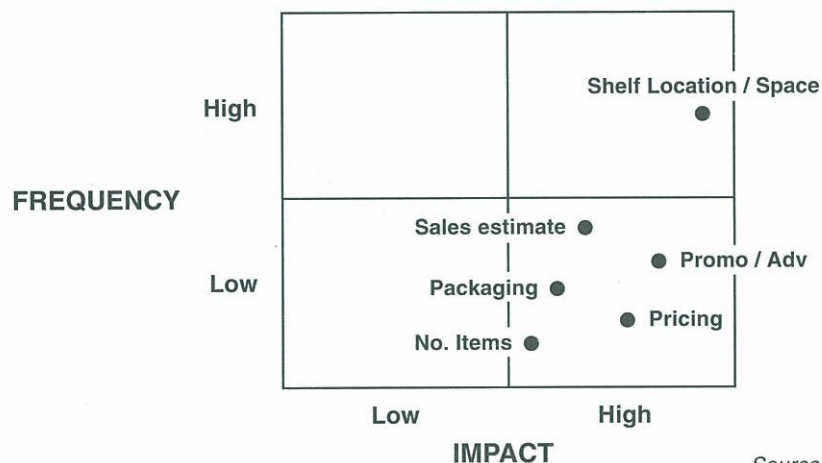
With the evolution of Information Technology which allows great quantities of information to be processed at low costs, the retailer has the opportunity to test different sizes, packaging and prices for each product. At the same time collaboration with the retailer gives the supplier the opportunity to try out all the variables of the product launch using a test environment which definitely represents the real market. What is more, the greater expertise of the retailer in the operational side of the launch can help the supplier to avoid certain pitfalls. A retailer, in fact, co-ordinates a far higher number of launches every year than a supplier.

The areas of collaboration in launching new products are:

- definition of the packaging in terms of size, manoeuvrability, on-the-shelf effect, optimisation when replenishing (i.e. number of packs per case, their characteristics and the possibility to use display cases);
- definition of the optimum product range according to the items preferred by the consumers and the number of items that must be present on the shelf;
- determining the optimum price through parallel tests in a realistic market environment;
- definition of realistic sales estimates, to get rid of useless inventory build up;
- definition of an optimum merchandising and promotion plan;
- best shelf location and space allocation decisions.

As far as these issues are concerned, the field research has pointed out how both suppliers and retailers find it highly effective to collaborate. But it has also revealed how infrequently such collaboration takes place, being primarily limited to shelf location and space allocation (table 4.10).

#### 4.10. Product launches: present collaboration and impact



Source: Field Research

We feel, therefore, that there are many opportunities still to be exploited in the improvement of product launch performance.



## Collaboration in the Development of Products

Collaboration in product development is more difficult to undertake. This is mainly because the suppliers consider their development projects to be exclusive and confidential, and believe it is dangerous to share them with outsiders.

This is certainly a longer process and one which requires greater strategic commitment and mutual trust. On the other hand, it does allow the partners to obtain the greatest benefits by selecting the best projects at an early stage of development and by concentrating the few development resources available on projects with a higher probability of success. Working together on development can also result in a reduction of the failure rate of new product launches and the associated costs.

### DELHAIZE "LE LION" – HOT CUISINE CASE

*This is a story about one of the oldest retailers in Europe, Delhaize "Le Lion" and how they collaborated with the supplier Hot Cuisine to develop a unique line of a store brand prepared chilled meals.*

*... The two companies have developed a very efficient process to develop and launch new products. First they brainstorm together on new product ideas and consumer needs. Hot Cuisine does research to develop possible products and run internal and external panel tests. If the products are approved they send samples and costs to Delhaize. Delhaize runs panel tests. If the results are not positive or costs are high, Hot Cuisine goes back to the drawing board. If the results are positive, Delhaize develops packaging, and plans the launch ...*

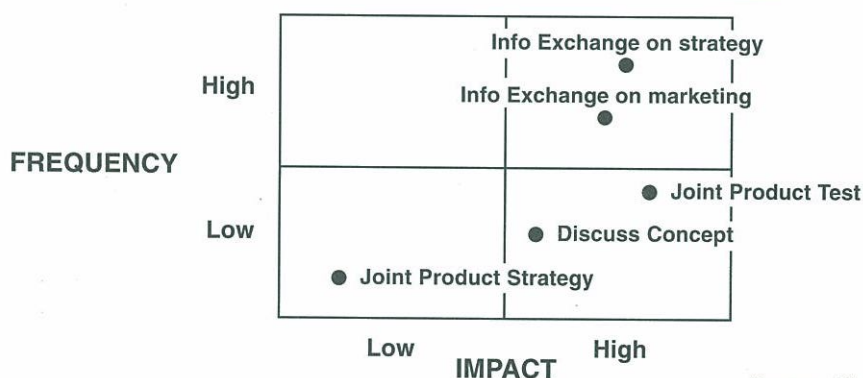
This type of collaboration is very efficient because the retailer has access to a huge volume of information about the consumer which the supplier does not. One only has to think about the information obtained from credit cards or consumer loyalty programmes to imagine the amount of information on the consumer and their behaviour that the retailer has. Furthermore, the experience accumulated by the category managers in the day to day running of their categories regarding the consumers' response to different assortments and promotions can provide important information for the development of a new product.

The areas of collaboration in the development of new products are:

- Sharing information on consumers and market trends
- Sharing information on the categories and product strategies
- Discussion and comparison of product concepts at an early stage of development
- Joint tests run on new products

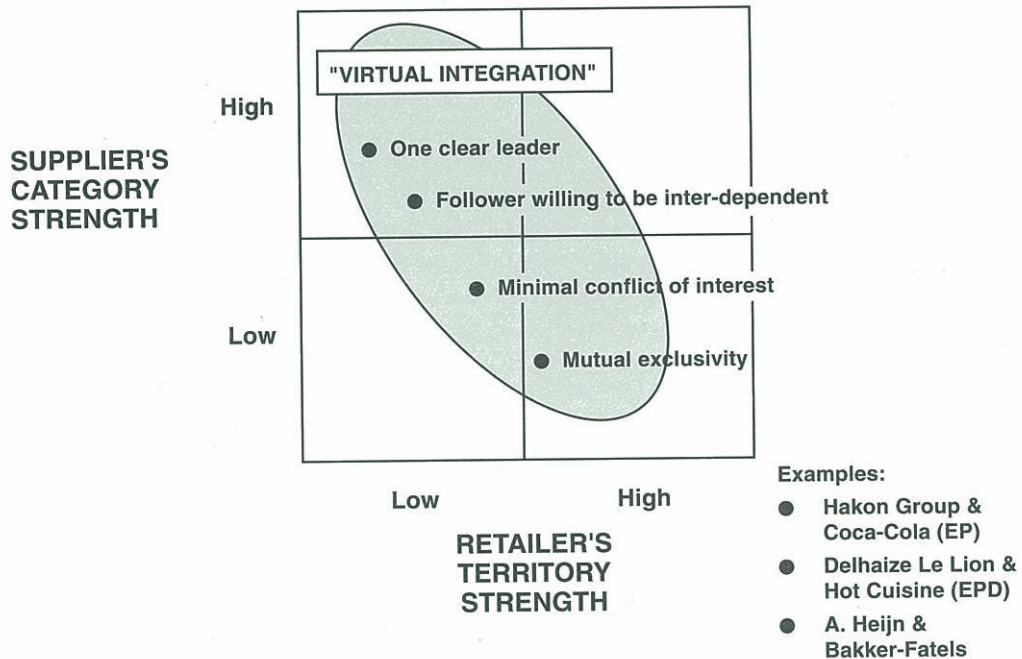
The field research (table 4.11) has unearthed great potential for improvement in this areas of collaboration as well.

### 4.11. New product development: present collaboration and impact

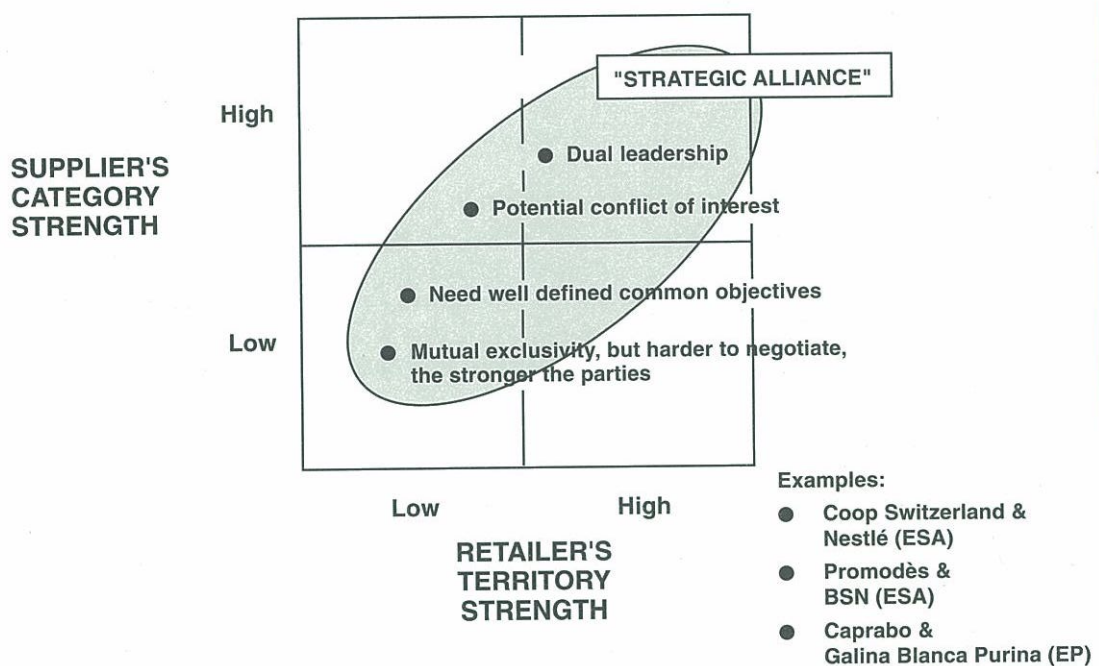


Source: Field Research

#### 4.13. Unbalanced partnerships



#### 4.14. Balanced partnerships



In a general situation of stagnant demand and growing competition, the main reasons for setting up collaboration projects in marketing seem to be:

- the need for both supplier and retailer to find new opportunities for growth
- the need to reduce excess costs in the supply chain (as in operations)
- a common need to improve the effectiveness of each marketing activity
- the need for the supplier to gain a competitive edge because of increasing difficulty in sustaining the growth of their business.

These difficulties are caused by:

- proliferation of new brands, mostly me-too products with little differentiation in performance
- decreasing brand loyalty by the consumer
- increase of private label business
- the growing power and capability of the retailer and his increasing knowledge and control of the business.

### Overall Benefits

Individual projects of collaboration in single categories can have very significant results as has been illustrated in this chapter. Let us point out that for example joint promotions can double efficiency and that Efficient Store Assortment can increase sales by 15 to 20%.

These benefits do not necessarily need a critical mass of participants as in SRC in operations, but they are related to the success of each individual project. This is because here one does not have to depend on common standards as one does in operations with EDI codes and/or handling methods.

Assuming all types of collaboration are implemented in the area of marketing, total results estimated for the retailer are:

- a yearly increase in sales of between 15 and 25%
- an increase in gross margins of between 8 and 13%. Margins increases less than sales because of increased costs or lower prices of incremental volume
- an increase in gross profits of 1.35 percentage points at retail price, as a consequence.

However, we believe that these results cannot be applied to the whole retailer's business, as they are likely to have only a few collaborators per category and only collaborate initially with key strategic categories (see the balance of power and exclusivity issues). This has also been confirmed by the Field Research which allows us to estimate that the results are applicable to a maximum of 25 to 30% of total revenues and, as a consequence, a single retailer can expect an increase of between 0.34 and 0.40 percentage points of gross profit (still a great deal).

The same sales increase for the supplier means:

- a 10% to 15% increase in margins
- an estimated increase in gross profits of 1.4 percentage points at retail price.

However, again with the support of Field Research, we believe that this is applicable to about one third of their business as collaboration will only take place with some of the largest retailers.

Therefore, a single supplier can expect an increase of 0.46 to 0.53 percentage points of gross profit at retail price.



## CHAPTER 5: KEY STEPS IN MAKING IT HAPPEN

Having described the different forms of collaboration, we should now look at the main actions which firms must take in order to make a success of it.

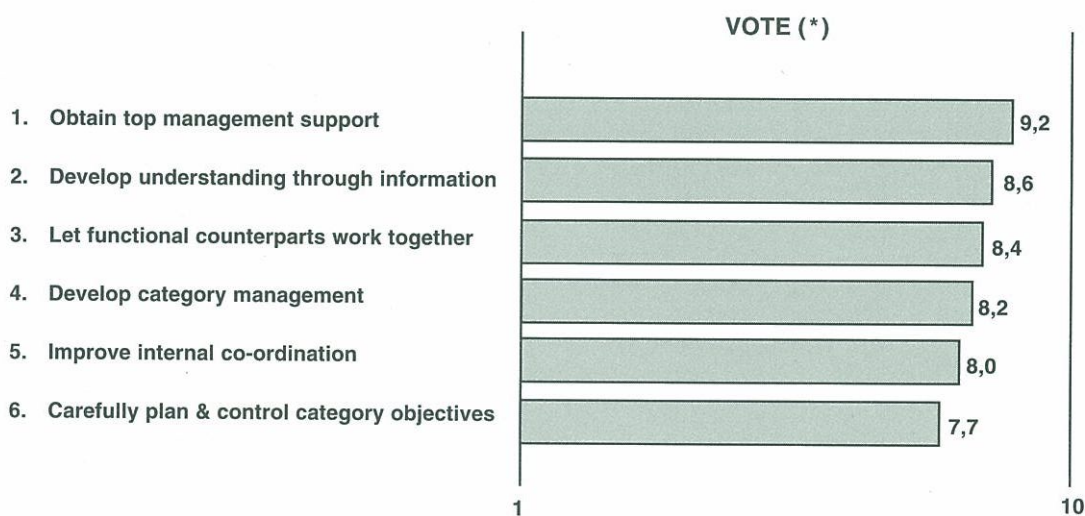
It is important to point out that it involves a drastic change away from the "traditional" organisational culture: it is therefore important that management carefully analyses the most practical way of implementing each action within the context of its own firm, planning all the necessary changes.

It is also important for a firm to analyse the organisational actions which it must carry out internally separately from those which, instead, must be carried out externally.

### 5.1. CREATING A FAVOURABLE INTERNAL ENVIRONMENT

Research has suggested the ranking of the most important organisational actions for successful collaboration (table 5.1.): since the source of these suggestions is the most authoritative and referenced possible, it should work as a good check-list for assessing one's own approach, or as a guideline for getting started.

#### 5.1. Ranking of organisational actions to make collaboration successful



Note (\*): in a scale 1-10

Source: Field Research

It must be pointed out that this ranking is an overall list and does not therefore isolate national or other differences.

- **Obtain top management support:** this is the main action, because collaboration is a strategic and cultural choice, destined to change much of traditional business behaviour, such as information exchange, long – versus short – term thinking, the win-win versus win-lose approach . . .
- **Understand each other through obtaining and sharing information.**

The information in question is in two categories:

- the consumer and his purchasing behaviour
- the internal mechanisms of the firms (suppliers and retailers) involved in the supply chain.

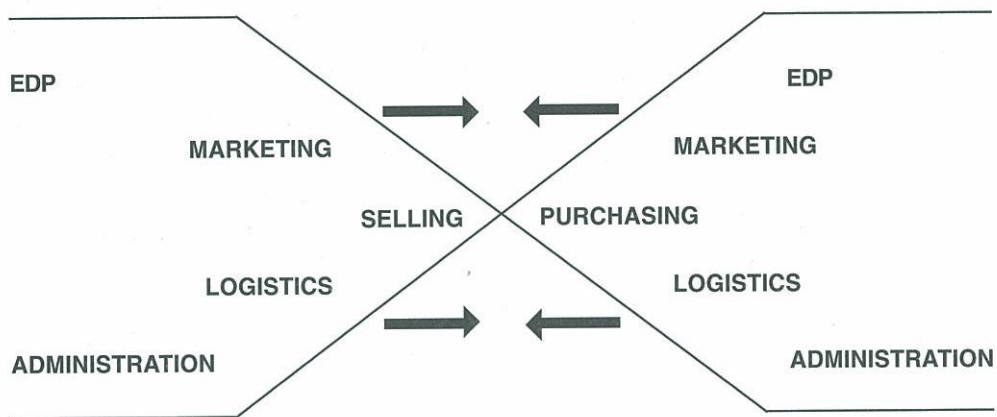
In the present-day reality of food retailing, information exchange and the deep and shared understanding inherent in these two issues is still limited. But how can one think of efficiently serving the consumer if there are different, or even opposite, assessments of his expectations, tastes, behaviour? How can one hope to obtain the most efficient, fast and economical movement down the supply chain "from factory to shelf" without knowing the detailed internal working mechanisms of the different operators involved and the costs connected with the various activities?

However, in a broader industrial context these issues are seen as neither insurmountable nor indeed extraordinary. In other industrial sectors this information exchange is quite usual! A manufacturer of machinery and a supplier of components, for example, or different operators in sequence in the long textile chain are used to sharing knowledge and experience, while still, however, safeguarding the identity and the interests of the individual firms.

- ***Develop direct communication between functional counterparts.***

The traditional contact between supplier and retailer is often limited to the functions of Sales and Buying. But in collaboration other skills and points of view are essential and it is not always possible nor appropriate for Sales and Buying to represent other functions of their firm which are often complex and specialised. So direct contact, especially between marketing and logistics experts (table 5.2) becomes the most suitable procedure for studying approaches "common" to the consumer and the best ways and means of reducing costs or improving service.

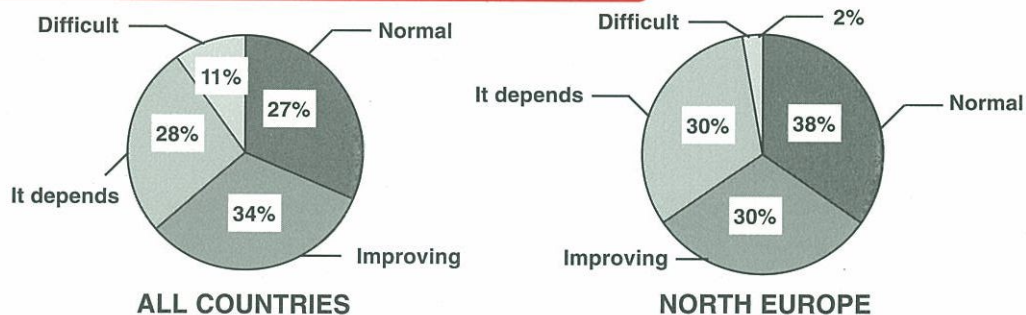
#### 5.2. Develop direct communication between functions



Research shows that direct communication between functional counterparts happens "normally" or is being developed in 61.3% of cases (table 5.3); furthermore it depends largely (27.9%) on specific relations between the firms (more than once we have found that simple personal problems can hinder a potentially very fertile relationship between firms).

In countries where collaboration is more widespread, such as in Northern Europe, a more marked diffusion of direct functional contacts is found, whereas in some other countries like Spain and Italy this still only happens every now and then.

### 5.3. Present communication between functions %



Source: Field Research

- **Develop Category Management**

The third organisational lever for favouring SRC is Category Management. Using one of the sources which seem most appropriate, Category Management can be defined as follows:

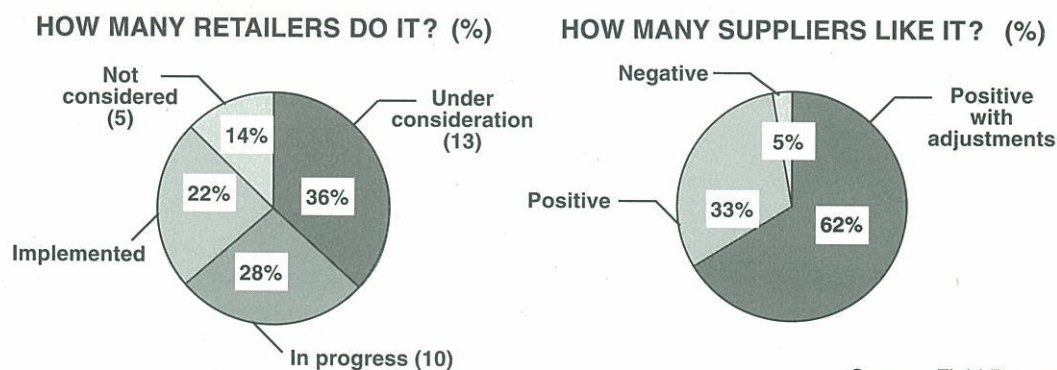
#### CATEGORY MANAGEMENT

- *a philosophy of strategically managing a retailer's or supplier's business which recognises that category groupings of products are strategic business units for meeting consumer needs and for planning and achieving sales and profit goals;*
- *a process by which retailers and suppliers, through joint planning and execution, develop strategically driven, financially-based strategic category plans and implement these plans to improve the performance of product categories for mutual benefit;*
- *an organisational concept which gives Category Managers on the retailer side the responsibility for the buying and merchandising decisions for the categories they manage, in order to maximise the return on assets allocated to them. On the supplier side, a parallel approach is emerging which gives Account Managers the information and tools to facilitate Category Management with their retail customers.*

Source: Brian Harris – Retail Direction Inc.

Category Management has been adopted by the main European retailers with whom it has reached an advanced stage, besides also achieving great success: table 5.4. shows that 50% of the sampled retailers have already adopted this solution and another 36% are taking this solution into serious consideration.

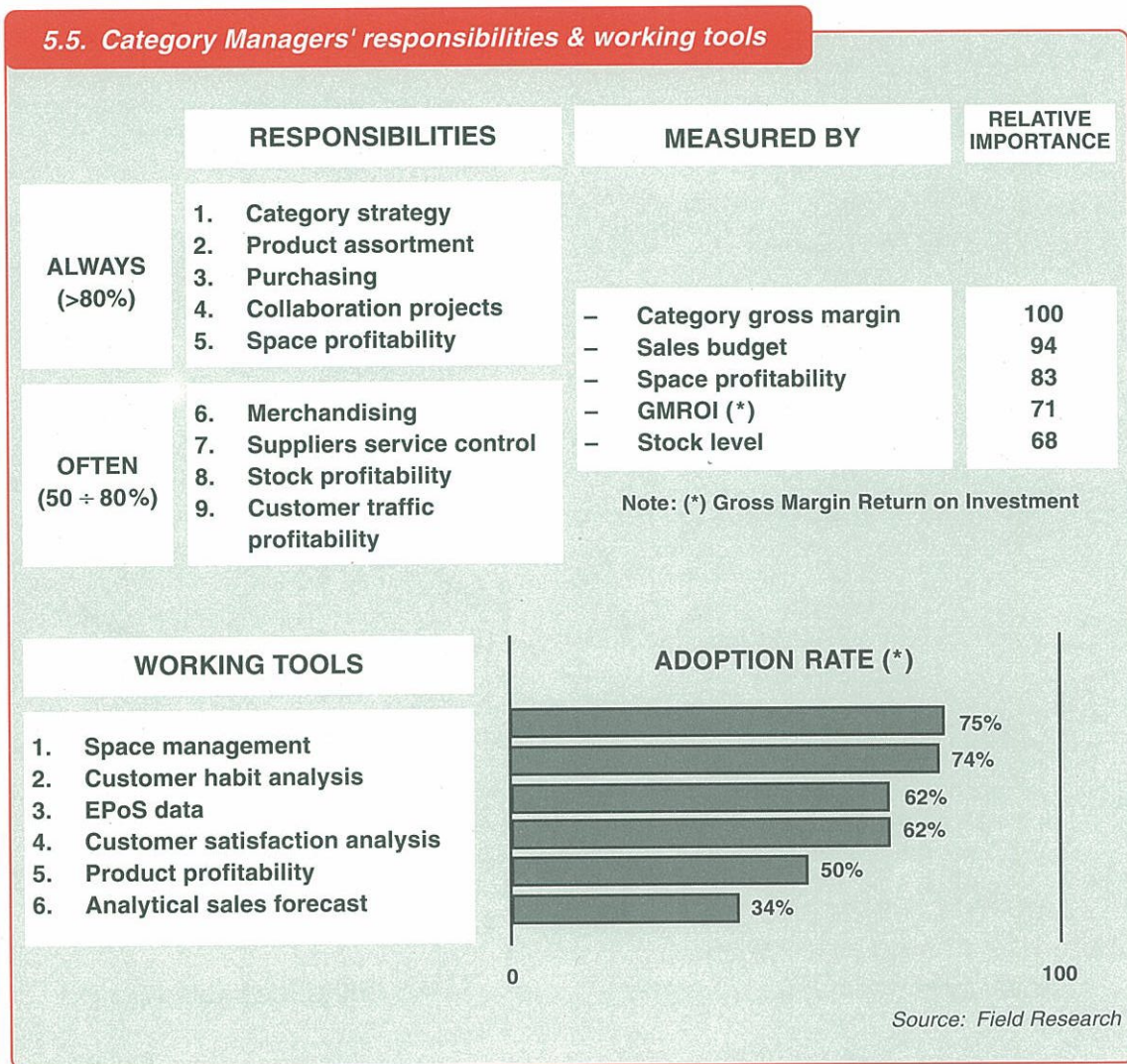
### 5.4. Category management



Source: Field Research

Not all the suppliers involved in the research have declared a detailed working experience with category managed retailers – but those who have done it (over 50% of our sample) declare themselves satisfied by it (table 5.4), “we improve dialogue with retailers, and enter their planning process” . . . “it helps us to integrate our marketing and sales plans”, even if it has meant some organisational reshuffles “CM is demanding for us, but it helps to focus our SBUs . . . ” “Our information systems must be revised, in order to reflect our Customers needs”, . . . “but we benefit from much better and detailed information about the consumer”.

The research further supplies a map of responsibilities (table 5.5) and tools which the retailers assign to their Category Managers; here, then, is a useful guide to follow for those who must think about their organisational arrangement again or check it.



It seems that Category Management can represent for retailing, twenty years on, the same organisational evolution which product management has meant for suppliers. Even more appropriate, however, in a context like retailing, which can be more complex because of localisations, sales formats and assortment strategies.

One of the key needs in modern retailing is to plan and manage not only purchasing but the entire strategy for limited and homogeneous sets of products (such as the categories are): the answer to this need lies with Category Management.



- *Improve co-ordination, planning, control*

The development of Category Management with the retailers and of Key Account Management with the suppliers is not, by itself, a guarantee of the effective co-ordination of the different functions of a firm. No single organisational action could achieve this. So the more advanced firms are interested in changing all the internal processes involved in collaboration (from product development to the execution of the orders, from planning promotions to sales forecasts, to stock control), with the aim of improving the integration of the various activities.

The main activity of management passes from the control of functional tasks activities to the planning and control of business processes that are designed to serve the customer and the consumer in the most effective and efficient way. Information services follow a similar change as do the systems for the motivation and control of people: from functional and short term oriented Management by Objectives (MBO), firms that are more open to integration and collaboration develop MBO's linked to the strategic performances of product categories!

This evolution involves changing the whole business culture. The ingredients for that are the classic ones in the management of change:

- the discovery and development of benchmarks for reference purposes;
- the dissemination of messages and signals within the firm in order to encourage undertaking and commitment;
- training people so that they develop the skills necessary for the new tasks;
- mechanisms for the formal recognition of cases of success/failure;
- management of the human aspects of people in favour of change and against it.

Most of this relates to managing the human resource: in table 5.6 we have included a classification of the most important levers according to our research, keeping those for retailers and suppliers separate.

#### 5.6. Key priorities of human resources management for SRC

SUPPLIERS	VOTE (*)	RETAILERS	VOTE (*)
Multifunctional experience	8.0	Multifunctional experience	8.7
Climate of trust	7.8	Climate of trust	8.3
Long term commitment	7.5	Functional skills	7.5
Openness towards change	7.4	Training & education	7.4
Objectives & incentives	6.7	Performance measures	7.0
Training & education	6.7	Cross-industry experience	6.7
Performance measures	6.5	Objectives & incentives	6.0
Functional skills	5.7	Openness towards change	5.7
Cross-industry experience	5.6	Long term commitment	3.8

Note (\*): in a scale 1-10

Source: Field Research

It is important to note:

- that suppliers and retailers agree on the top two priorities;
- that the retailers tend to emphasise the development of competence (skills and training), while the suppliers underline long term orientation (perhaps to balance their classic pressure for short term profitability).

These findings support our view that the three main areas in which to train the organisation towards successful supplier/retailer collaboration are:

- *development* of skills and competence
- *integration* of functions
- *trust* building between companies and individuals

## 5.2. EXTERNAL MOVES TOWARDS SRC

Besides the internal organisational effort needed to train a firm towards collaboration, five critical external activities have been found. Once again our Field Research suggests the path that most advanced firms in Europe have taken.

- *Choose a Pioneer Partner*

Collaboration, as has been seen, requires openness, confidence, organisational unison, and compatibility of cultural and strategic vision: so the choice of the partner is at least as important as the choice of the project. Indeed, it is better to start with the right partner on a minor project (and achieve success) rather than face a very ambitious project with a "problematic" partner.

The following are the decisive factors in choosing the right partner:

- evaluation of whether the partners are likely to enjoy positive interpersonal relations (after all, where does trust come from if not from people?);
- knowledge of the firm – potential partner, of its skills, its functional mechanisms and its readiness to change them through collaboration;
- evaluation of "compatibility" on such matters as: top management support, openness to information exchange, possibility of direct relationships with the functional counterparts, openness to discussion about strategies in a give category . . .

- *Start with the right projects*

Having found the right partner, the next step is to choose a collaboration project which has the highest chance of success: it is important to obtain some solid results at the beginning, in order to build and spread credibility over the whole collaboration programme.

The Field Research has supplied us with the most important criteria for the choice of a project (table 5.7): naturally in this case the retailers' and suppliers' points of view are slightly different, reflecting their different priorities.

Generally, though, firms prefer to start with projects that are simpler to manage and with a greater technical-operational content.

### 5.7. Most important criteria for the selection of a collaboration project

#### Suppliers choose projects concerning:

1. Flexible service
2. Need for specific delivery system
3. High quality products
4. Balance of power with partner
5. Strong branded products
6. Frequent re-orders
7. Highly differentiated products

#### Retailers choose projects concerning:

1. Strong branded products
2. Flexible service
3. High quality products
4. Need for a specific delivery system
5. Balance of power with partner
6. Few Suppliers in a category
7. Highly differentiated products

Source: Field Research

- *Careful evaluation of the benefits*

Collaboration represents a significant change away from the traditional methods of managing the relationship between a supplier and its customer: therefore firms should equip themselves to measure carefully the benefits that derive from it, to convince themselves that they have chosen the right direction but also to convince those ever present people who will be resistant to the change. Careful measurement is necessary in any change programme, but in the case of SRC it is even more important, for two specific reasons:

- the net balance (advantages over disadvantages) must be measured and evaluated for **both** the partners. This evaluation must be very open because reciprocal trust is one of the pre-requisites for collaboration, and also because a roughly equal sharing of the benefits is a necessary condition for collaboration to continue;
- **all** kinds of benefits must be measured and evaluated
  - the immediate quantitative and tangible benefits (costs, sales, gross margins);
  - the qualitative and intangible benefits (service, time, motivation);
  - the quantitative and tangible benefits that can be expected in the longer period.

It should not to be forgotten that, especially in operations, the quantitative benefits become significant only when a large number of firms join the collaboration programme (see chapter 3). Until then, firms must base their thinking particularly on qualitative measures and on the extrapolation of the partial results obtained from the initial projects. In these first phases, we think that the exchange of experience and results, both by direct contact between firms and through those institutions that facilitate the expansion of innovation is of enormous importance (in the United States, for example, this has become widespread and successful).

- *Set the Standards*

The potential benefits of collaboration are very important, but in order to obtain them – above all in operations and in EDI – there must necessarily be many participants and therefore the standard way of doing new things must be defined (coding, transmission, internal and external handling, language . . . ).

It is logical, and experience in different countries has shown, that the retailers are first to feel the need to impose their own standards on the suppliers.

Afterwards retailers themselves realise that the more they co-ordinate and direct the choice of common standards, the more the suppliers will be encouraged to adopt them.

However, the most important and influential suppliers have an important role to play in spreading standards among their customers.

In short, retailers start a chain reaction (better still if co-ordinated among themselves) and suppliers regulate its expansion.

- ***Build up the club***

Since collaboration is a process which affects the whole complex of operators in the supply chain (even if that does not actually mean that they are all actively taking part), it is desirable for a group of leaders of the sector, at a national and/or European level, to take charge of the planning stage of the process itself, in order to control and direct its development.

This has happened in the USA, starting in 1993. We hope that the research process which led to this report (and the report itself) will cause a similar reaction across Europe or in some of the countries of Europe.

What are the tasks that a club of leading retailers and suppliers can carry out?

- stimulate the spreading of experiences and of illustrative cases (best in class);
- look after the setting up, the unification and adoption of common standards;
- set up and spread methods for measuring and evaluating the results;
- look after the development and adoption of advanced tools (e.g. forecasting);
- encourage communication regarding experiences and above all, set up instruments for training people in the tasks required for collaboration.

In some cases a club of leaders can also be the place for discussing and processing recommendations for behaviour in the sector: in many of the European countries we studied, even though with differences of emphasis, there was a clear expectation that this should happen. In each country institutions already exist to represent this kind of interest separately for the two categories of suppliers and retailers. It is not surprising however that the theme of collaboration, as it covers the whole supply chain suggests the formation of "infra partes" bodies, for the development of the overall culture of the sector.

## CHAPTER 6:

### UNDER WHAT CIRCUMSTANCES WILL COLLABORATION HAPPEN?

- Why and where will supplier/retailer collaboration happen?
- Why is this process more advanced in some European countries than others?
- What will happen in the years to come?

It would be desirable, of course, to have clear and accurate answers to these questions, and be able to assess which of the benefits described in the previous chapters could be achieved in practice by the suppliers and retailers in the grocery sector, in the next few years.

However, we must emphasise it is impossible to create a “simple” model of answers, for several reasons:

- one cannot give one set of answers applicable to situations in different countries, because in each one food retailers and manufacturers are subject to a variety of specific historical, economic and competitive pressures;
- collaboration, as the reader will have seen, is a complex phenomenon with strategic, technological and human aspects and therefore its implementation cannot follow a simple set of rules;
- our suggestions, no matter how accurate they may be, will never be practicable in exactly the same way for each company, as much depends on the ability and willingness of the individual company to interpret and implement them.

However, what we have done is to identify the variables in the situation which are going to influence the development of collaboration. This analysis has led us to make certain conclusions about what the factors which will encourage SRC are.

#### 6.1. SRC WILL OCCUR EVERYWHERE

There are two issues which we believe exist across Europe and which will lead to **greater collaboration**:

- food retailing in Europe is at or nearing the end of its growth era, and therefore cannot rely on growth as a means of increasing profit;
- increasingly aggressive competition, is forcing everyone to reduce costs, and SRC provides an opportunity to do this. Discounters are one of the main examples of this and in fact 65% of the participants in our research confirm that the growth of discounters will encourage suppliers and retailers to collaborate more closely.

#### 6.2. SRC IS INITIATED BY THE RETAILERS

All countries have experienced this phenomenon. It seems that retailers are the first to become interested in significantly reducing their costs and reinforcing relationships with suppliers. This is because they have more to gain at least initially and they are the ones who feel the need to define the way to make it happen. As compared to suppliers, retailers are also much more focused on their respective domestic markets and this makes them more inclined to see SRC as an additional and distinctive competitive weapon.

### 6.3. STRONGER RETAILERS WILL ENCOURAGE SRC

A retailer's strength depends obviously on their size but even more importantly on:

- their competence (i.e. being not only good merchants but with top class managerial skills);
- their complex strategy (i.e. products, services, communication as well as the simple weapon of price);
- the sophistication of their technological information systems.

The whole experience in Europe shows that "strategies of strong retailers are sophisticated and not just powerful" . . . and . . . "it is much easier to collaborate with strong marketers and merchandisers". 70% of participants in our field research believe that strong retailers make the best partners for collaboration, provided that strength is not coupled with arrogance (as might have happened in some cases in France and Italy).

### 6.4. SRC WILL BE HELPED BY THE RETAILERS' ABILITY TO CO-ORDINATE DECISION-MAKING

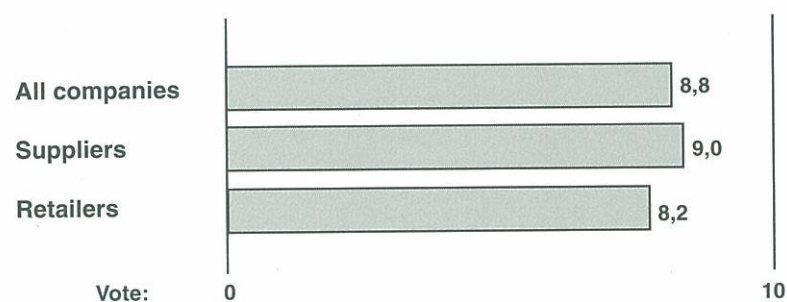
Retailers have very complex organisational mechanisms, for the following reasons:

- their obvious geographical spread;
- they are often made up of a group of "semi-independent" stores (either by their acquisition or as a co-operative);
- they must consider the local conditions very carefully.

However it is clear (and this was emphasised by our research participants) that a retailer's ability to co-ordinate decision making within the organisation is essential in making collaboration work.

This co-ordination within an SRC programme is not purely a matter of centralising the structures but of developing organisational policies, information systems and personal relationships which will bring about collaboration quickly and consistently throughout the entire organisation (table 6.1).

#### 6.1. How important is co-ordination amongst Retailers' decision making points?



Source: Field Research

### 6.5. DIFFERENTIATION WILL HELP RETAILERS DEVELOP SRC

A retailer who competes via different formats directed at different segments of the market usually has several competitive strategies at his disposal, rather than just the simple price lever. Collaboration provides more opportunities to enrich and improve on these different strategies.

## 6.6. RETAILERS' PERFORMANCE WILL INFLUENCE THE NATURE OF COLLABORATION

There are large differences in performance between retailing businesses within individual countries and across Europe. Averaging out all the information can be dangerous, but there is sufficient information for us to talk about typical levels of gross margins and operating costs in the larger countries. This has enabled us to suggest a matrix of retailers' priorities on the nature and objectives of collaboration (see table 6.2.).

### 6.2. Retailers' performance matrix will influence SRC focus

<b>Gross Margin (%)</b>			
<b>High (&gt;22%) due to Strong Consumer Franchise</b>	<b>SRC reduce costs (eg. Germany)</b>	<b>SRC keep profitability (eg. UK)</b>	
<b>Low (&lt;22%) due to Price-Based Competition</b>	<b>SRC re-shape the industry (eg. Italy)</b>	<b>SRC improve margins (eg. France)</b>	
	<b>High (21-22%) due to difficulties in cutting costs</b>	<b>Low (17-18%) due to focus on efficiency</b>	<b>Operating Costs (%)</b>

Source: GEA

## 6.7. STRONG SUPPLIERS WILL ENCOURAGE SRC

The strength of a supplier is measured differently from that of a retailer. Managerial culture appears to be very important, as does multinationalism and their position in the product category. Sometimes the question of size in a certain market can be almost meaningless.

Our research confirmed that stronger suppliers favour collaboration because it enables them to improve category performance, as long as their strength does not become arrogance: one should always remember that collaboration is a matter of relationships over and above market share.

## 6.8. SRC WILL BE EASIER TO DEVELOP IN STABLE PRODUCT CATEGORIES

A product category is considered stable if the relative shares of the operators change in a small way and/or slowly over time.

Most experience shows (with some exceptions) that collaboration projects involving stable categories fare better. This is particularly true of collaboration in marketing.

The underlying logic is that in unstable categories it is more difficult to choose the right partner with whom to make an alliance, and which potential partners to ignore. Whereas, in a stable category the choices are much clearer, whether they are about forming a strategic alliance between leaders or virtual integration with smaller but high potential operators.

## 6.9. PRIVATE LABELS CAN ENCOURAGE SRC

In the past this has been a controversial matter because manufacturers of the more important brands have traditionally hindered the development of retailers' own brands. However, in recent years private label penetration in various categories has become much more significant (up to 25-35% in some cases), and this has been accompanied by a greater willingness even of large manufacturers to supply private label products in addition to their national or international brands (see Chapter 4).

Thus we are likely to see some forms of strategic collaboration between manufacturers and retailers, because both parties benefit from a better understanding of the expectations of the ultimate consumer, and from a better definition of their respective market position.

Also, the exchange of detailed information on performance and product costs along the whole supply chain gives both parties opportunities for genuine cost reduction (both fixed and variable) and for generating creative ideas on improvements in quality, packaging and assortment.

Last but not least, firms which collaborate on private label achieve a more accurate "insider" awareness of the operating mechanisms of the partner, and a privileged position in their respective strategic planning.

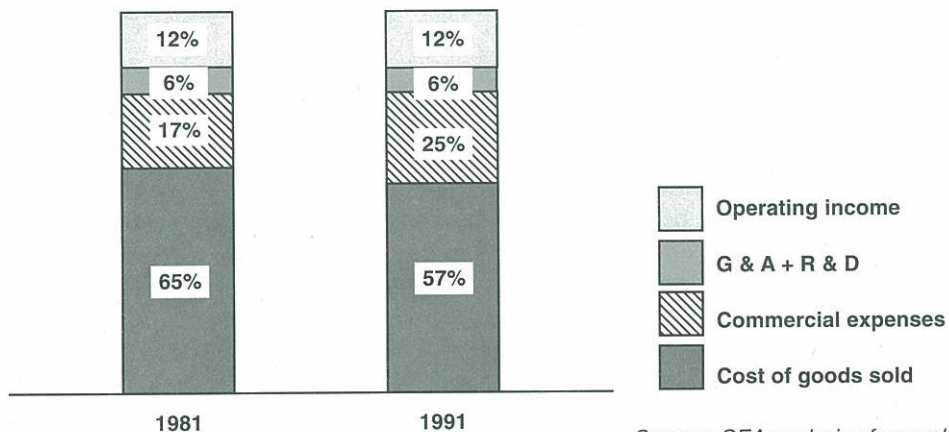
## 6.10. SRC WILL HELP SUPPLIERS TO IMPROVE THEIR COMMERCIAL PRODUCTIVITY

In recent years many food industry suppliers have found that continuing improvements in operational productivity were counterbalanced by a complementary growth in selling costs (e.g. marketing, sales, and distribution). This left overall profitability largely unaffected and little room for investing in the rising costs of new product research and development.

The structure of costs shown in table 6.3. is representative of many firms.

Our research has told us that 82.5% of suppliers believe that collaboration with retailers can help reduce their commercial expenses considerably. In particular, firms are preparing to reduce significantly the size of their sales forces, merchandising and order processing staff, and dramatically re-define the tasks and skills of those staff who remain.

### 6.3. Typical evolution of a Suppliers profit & loss structure



Source: GEA analysis of annual reports



**6.4. Life cycle of attitudes towards SRC**

SPAIN	GERMANY	ITALY	FRANCE	U.K.
<ul style="list-style-type: none"> <li>• Little reciprocal knowledge</li> <li>• Little trust</li> <li>• Busy with other priorities:               <ul style="list-style-type: none"> <li>– growing</li> <li>– infrastructures</li> </ul> </li> <li>• Poor basis of information</li> <li>• Need for a catalyst to start SRC</li> </ul>	<ul style="list-style-type: none"> <li>• Very positive: ready to go</li> <li>• Leaders will drive</li> <li>• Trust derived from "common goal"</li> <li>• Agreement on key rules</li> </ul>	<ul style="list-style-type: none"> <li>• First SRC attempts</li> <li>• Some reciprocal knowledge</li> <li>• Some mistrust, lot of fear</li> <li>• Need for:               <ul style="list-style-type: none"> <li>– set of rules</li> <li>– a catalyst</li> </ul> </li> <li>• "Let's do easy things first"</li> </ul>	<ul style="list-style-type: none"> <li>• Very high conflict due to "squeeze" and push</li> <li>• Some leaders block SRC</li> <li>• High professional potential</li> <li>• Need for an industry catalyst</li> </ul>	<ul style="list-style-type: none"> <li>• Very advanced</li> <li>• Determined to continue towards strategic SRC</li> <li>• Reciprocal knowledge and trust</li> <li>• Good infrastructures and technology</li> </ul>

Source: Interviews and Field Research Seminars

Participants in the research confirm that this reduction in personnel can be from 20% to 40% with a high point in countries like Italy and Spain where this process has yet to start. In countries like the U.K., where this has actually happened, similar figures have been reported. It is obvious that suppliers see a much reduced need for staff traditionally dedicated to "pushing" sales, or getting the product on the shelf, when they are engaging in a collaboration programme which largely guarantees this.

We should point out, though, that the potential savings mentioned above have not been included in the benefits of collaboration, because the ways in which firms absorb them in headcount are difficult to generalise.

### How will SRC develop in Europe?

In the course of this project we interviewed over 200 firms in the food industry in all the main countries on Europe. Our conclusion was that the development of SRC is far from uniform, but that it is possible to place the larger countries at specific points on the adoption curve (table 6.4).

The main characteristics of adoption are normally as follows:

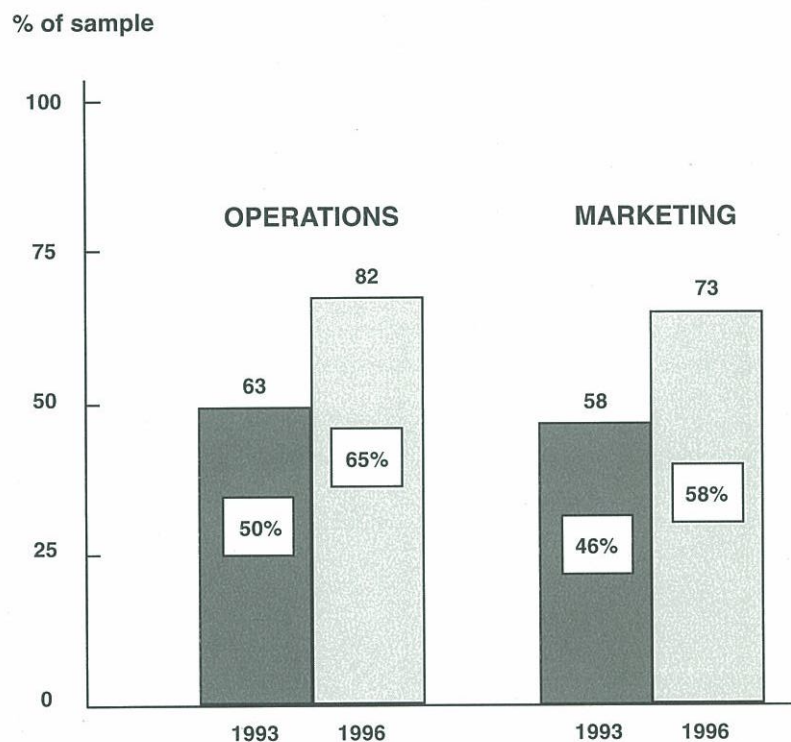
- SRC usually starts in the area of operations, because projects are more practical (easier to handle) and intensive (provide big savings quickly);
- retailers are usually the first to initiate SRC because they are in a better position to influence the flow of goods and enhance productivity through their distribution centres;
- SRC in operations usually promotes deep reciprocal knowledge and mutual confidence between partners;
- reciprocal trust and product category stability then lay the foundations for collaboration in marketing between selected retailers and suppliers – with both financial and strategic benefits;
- however, the whole process can be discouraged if competition is primarily based on price-cutting and promotions, or if there is lack of consensus in the industry about a set of key codes of conduct (e.g. terms of payment, pricing).

The process of development is very much encouraged when evidence becomes available of practical results that can be (or have been) achieved. Firms in many countries feel the need for a catalyst i.e. some process which compares and evaluates the practical advantages of collaboration when compared to the status quo.

Evidence from leading operators and from the more advanced countries is clearly of prime importance here: nearly 50% of the firms participating in the Research are already involved, at present, in SRC projects (table 6.5). This number will grow within the next three years to about 65% in the area of operations and to about 58% in marketing, confirming its overall diffusion . . . "Initial success will encourage further projects . . ." "We are ready to meet all demands" . . . "After '96 SRC will be a must for all our clients . . ." with a relatively higher selectivity for the marketing projects.

The example comes from the U.K.: nearly half of SRC projects are presently carried out here; but our research shows that SRC will soon spread more and more all over Europe.

#### 6.5. Number of companies involved in SRC



Source: Field Research

## *APPENDIX 1:*

### *CASE STUDIES*

This is the collection of case studies about supplier-retailer collaboration in Supply Chain Management, in the order in which they have been used in the report.

The lessons of each case have been used in the appropriate chapter of the report; we also believe it is useful to provide the reader with the full version of each case.

Case	Collaboration	Reference
TESCO & BIRDS EYE WALLS	Efficient Operating Standards	3.1. – 3.2.
COOP ITALIA & GRANAROLO	Efficient Operating Standards	3.2
DANSK SUPERMARKED & THOLSTRUP	Efficient Replenishment	3.3
CONAD & BARILLA	Efficient Replenishment	3.3
ASKO & PROCTER & GAMBLE	Efficient Administration	3.4
COOP SWITZERLAND & NESTLÉ	Efficient Store Assortment	4.2
PROMODÈS & BSN	Efficient Store Assortment	4.2
CAPRABO & GALLINA BLANCA PURINA	Efficient Promotion	4.3
HAKON GROUP & COCA-COLA	Efficient Promotion	4.3
DELHAIZE LE LION & HOT CUISINE	Efficient Product Development	4.4
ALBERT HEIJN & BAKKER-FATELS	Virtual Integration	4.5

## TESCO & BIRDS EYE WALLS

This is a story about a very successful, long term partnership in the logistics area by two big names in the UK retail business, Tesco and Birds Eye Wall's (BEW). The collaboration was initiated by Tesco in 1988 with an out-of-the-ordinary "kick-start" visit by the commercial director of Tesco to BEW's management to discuss the low service levels that had been going on for over a month. At the time, Tesco was BEW's biggest customer, doing over £50 million (70 Million ECU) of business a year. Needless to say, BEW listened hard to what Tesco had to say and the result was a partnership program in the areas of logistics, information technology, and organisation that has changed the way both companies do business, significantly lowered stock levels and improved customer service.

This partnership programme however, was possible because of changes in Tesco's attitude and management style that started around 1986. Management began to give higher priority to opening up new channels of communication with Suppliers, improving products sold, the in store environment, and its people management and giving employees greater ownership and incentives in the business.

Lets look a bit closer at the partners. In 1993 BEW will generate revenues of about £650M (890 Million ECU). BEW was created in 1981 with the merger of Bird's Eye and Walls frozen food and ice cream businesses. Tesco in 1993 will generate revenues of about £8 Billion (11 Billion ECU) for a 10% share of food and drink sales in the UK. In 1992 its net margin was 7.6%. It has 400 stores, each with an average selling space of 25,000 sq feet and about 22,000 different products.

In 1986, about 70% of all BEW products were delivered directly to stores. Local sales representatives and store managers were responsible for placing orders.

Given the operating philosophy at the time, that pushing extra stock through the retail supply chain increased sales and profits, the emphasis was on ordering what the Suppliers wanted to put in the store and not on what Tesco wanted to sell. Tesco's central office had little control over what was ordered and there were no measures to evaluate Supplier performance in store. Service and product quality were low and distribution costs were high. To try to improve the situation, Tesco decided to consolidate distribution into one central distribution function and to centralise the flow of all goods through their own Regional Distribution Centres (presently more then 95% centralisation). Thus Tesco began to take control of replenishing BEW products.

This centralisation programme led to a major internal reorganisation of Tesco. Management set up a new division called Stock Management which was independent from distribution and buying/marketing. It had total accountability for stock chain management. It was responsible for balancing the managing of stock with a high product service level and developing all retail systems. Some of the key benefits of centralisation were continuous replenishment, the ability to know exactly what they were selling, not what they thought they were selling, and the ability to set up performance measures by product, making Suppliers truly accountable for what was delivered.

About two years into this program, Tesco's commercial director made the now infamous personal visit to BEW's. Tesco's new performance measurements showed that BEW's service level had hit a low of 85% for 4 consecutive weeks. That is, only 85 cases were delivered for every 100 cases ordered. This was not acceptable given Tesco's own target service levels of 98%.

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**Note:**

This case has been presented by: G. Booth – Tesco  
A. Brown – Birds Eye Walls

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In response to Tesco's visit, BEW launched a program called EXCEL to try to turn around its performance. One key element of this program was to establish a unified logistics organisation. Before Tesco's visit, BEW had a very fragmented organisation and information did not flow smoothly. The Sales Division took orders and managed distribution. Marketing did the sales forecasting and the commercial area was responsible for stock policy and planning.

To improve the situation, all logistics functions were consolidated into the commercial area, making it responsible for order handling, distribution and forecasting. Manufacturing was managed separately, but a strong link was maintained between the two groups.

As a part of EXCEL, BEW launched a Total Quality program that was grass roots led. At one time they had over 200 TQ projects running at the shop level. Performance measurements were also developed at BEW and these were reviewed by the entire business each week by product. An overall efficiency measure was developed made up of a stock availability and distribution efficiency. The latter was further broken down into efficiency of loading and delivery from the factory to the central distribution point.

BEW also worked to broaden the way it worked with customers. In 1986 they had a very "traditional" relationship with Tesco. All communication was channelled through one person/department. That meant that if there were price negotiations going on, progress on all other issues was blocked. With the new approach, functional areas communicate directly, reducing bottlenecks.

EDI and information exchange was key to improving the relationship and performance levels. Originally BEW and Tesco had two independent information systems. In 1989 they started collaborating in this area by sending orders via EDI from Tesco to BEW. In 1991, the two partners agreed on a joint EDI strategy. They agreed that BEW would send Tesco via EDI information on product, pack, price, and availability. Documents like order confirmation, delivery notes, goods received notes and invoices would be sent electronically. Tesco on the other hand would send demand/stock forecasting information, orders, goods delivery notes and payments electronically.

For Tesco, this move to share forecasting data was key. It prompted them to look for further improvements in the system. The result was their investment in a system that uses item movement at the store level to calculate store orders. Before they had 400 different people placing orders, creating large fluctuations in demand. Improved control of the order pattern also means information passed to the Supplier is more accurate.

Store Based Ordering (SBO) improved stock control and customer service. Orders are no longer based on stock counting but on minute to minute sales.

Products pass through check-out, the system logs the information, dispatches the item movement to the mainframe, the information is sent to the head office and elaborated, and orders are placed directly to Suppliers. SBO controls the day to day ordering so the store staff can concentrate on other things. They spend their time managing, not counting stock.

While technology is key in improving results, it is not enough. The partnership between BEW and Tesco works because they have excellent communications, regularly discuss performance levels and continuously work together to resolve new issues. Teams have been set up to improve forecasting of promotion items. Top management is working to define long term logistics needs. The partners openly discuss investments in technology and systems. Teams from each partner exchange visits to better understand how the others work to try to break down barriers.

The partnership has been extremely successful. BEW's service to stores is now 99.5%. Order lead times went from 7 days in 1986, to 5 days in 1990, and finally down to 48 hours in 1993. Tesco stock of BEW products went from 3.4 weeks in 1986, to 2.4 weeks in 1990, and finally to 1 week in 1993. BEW's own stocks went from 7 week in 1986 to 5 weeks in 1990 and finally to 3.5 weeks in 1993.

The collaboration is still under development. The partners are sponsoring together a research scholarship at an important Business School. They are working also with other Suppliers like P&G and Mars on a Logistics 2000 project. In addition, they have started an employee exchange program to break down barriers even further.

In conclusion, these partners have identified a few items that look like a good recipe for the success of collaboration: The project must offer mutual benefits. A trigger or some near disaster may be required to get the collaboration started. Commitment is required at all levels. Finally, agreements must be respected.

## COOP ITALIA & GRANAROLO

This is a story about the distribution of fresh and highly perishable fresh products that is usually difficult and complex to manage, apart from having quite high production and logistic costs.

In particular, this sector "is thrown off" by two factors that often require completely opposite actions if they are to be overcome:

- a) *the freshness of the products* (to which quality is also linked), is essential for this kind of product, so having stocks along the cycle is unthinkable. At the same time, "stockless" management often causes numerous stock-outs on the shelves.
- b) *the handling costs* need to be as low as possible and conflict with the need to operate at controlled temperature, and the type of distribution commonly used: small consignments, frequent deliveries, transportation of the stock to the point of sale and then deciding on the spot which products and how much of them to unload off the truck (Direct Store Delivery).

Two Italian producers (Granarolo and Giglio) and two food retailing chains (Coop and Conad) decided to develop a new, more efficient system for handling fresh products (ones with a shelf life of up to 21 days), and highly perishable fresh ones (just four days of shelf life). This project comes under the area of Efficient Operating Standards.

The two manufacturers produce fresh cheese products (cheese and yoghurt) and highly perishable, fresh products (fresh milk) with 1992 turnover of Lit 430 billion for Granarolo (240 million ECU) and Lit 230 billion for Giglio (130 million ECU). Coop and Conad are two of the most important realities in the world of Organised Distribution in Italy. The 1992 turnover at their purchasing headquarters came to Lit 2.4 trillion for Conad (1,3 billion ECU), and Lit 7.4 trillion for Coop (4,1 billion ECU).

Launched in mid 1992, the purpose of the project was to find the best operating method to supply two Conad and Coop sample hyper-markets (roughly 6,000 square meters). The two hyper-markets were supplied by the two producers with the following volumes:

- Coop receives 53 items from Granarolo worth Lit 1.67 billion (0,9 million ECU) per annum and 21 items from Giglio worth Lit 900 million (0,5 million ECU) per annum;

- Conad receives 58 items from Granarolo worth Lit 1.5 billion (0,8 million ECU) per annum and 30 items from Giglio worth Lit 300 million (0,17 million ECU) per annum;

The supply system traditionally used consists of the producer's trucks going to the hypermarkets, first to see which and how many of the products need to be put on the shelves, as well as which expired products need to be taken off of the shelves if necessary. The truck drivers then take care of unloading the quantities to be delivered out of their travelling stock. Though traditional and extremely easy to manage, this system contains the following three main, crucial pitfalls:

- high costs along the whole line of distribution,
- the risk of manufacturing too many or too few products which cannot be held in stock (except for minimal amounts for the 21-day products);
- difficulty in preloading the truck as it leaves the plant (or warehouse), with the exact quantities and mix of the product to be delivered.

The study for a more efficient operating system started by considering alternative pre-sale methods (a salesperson goes first and then delivery takes place) and telephone pre-ordering (at a certain time in the morning, a person working in the department calls the producer to say what is needed). Instead, they opted for a system that benefits both the outlet and the producer: directly using POS (Point of Sale) data coming from the hyper-market's cash register scanners.

So, the new system starts with the daily transmission of products sold that day; the connection is made between the two computers of the hyper-market and the producer (transmission automatically occurs between 10 and 11 p.m.).

A special algorithm immediately processes both consumption forecasts for the following two days (day +2) and the rolling forecast for the entire following week, day by day. During the interval between order and delivery (48 hours) the producer manufactures the fresh products and sends the exact quantity forecast to the hyper-market. Thus, Granarolo and Giglio products can get onto Coop and Conad's shelves after only 12 hours.

In a nutshell, the economic comparison between the old and new systems can be thus summarised (percent impact on retail sales price):

	Suppliers Cost	New (via EPoS)	$\Delta$
Warehousing	0.64	0.60	(0.04)
Primary transport	1.19	1.10	(0.09)
Regional warehousing & stocks	1.40	0.80	(0.60)
Delivery	3.71	1.67	(2.04)
<b>Total</b>	<b>6.94</b>	<b>4.17</b>	<b>(2.77)</b>

Other results, certainly no less important than the economic results, are quality oriented, and can be summarised thus:

- extreme freshness of the products,
- reduction of stocks on hand (more room available on the shelves),
- no stock-outs,
- no management activity of ordering,
- continuous monitoring of sales trends, immediate reaction in case of unpredicted sales (peaks or drops in demand),
- reduction of returned products (expired).

In conclusion, the operation's key to success lies in three main points that the four companies assimilated and put into practice:

- practically "cost free" data gathering and transmission: the EPOS information received from the cash registers;
- the use of an algorithm that analyses information over time (annual, monthly, and weekly seasonality) and predicts the sell-out for each item in the following days with absolute credibility;
- production's ability to respond to the requests of each store within 24 hours.

## DANSK SUPERMARKED & THOLSTRUP

This is a collaboration test project done in continuous product replenishment between a Danish supplier and retailer in the fresh cheese business. This experience confirmed to the partners that changing human behaviour, especially in the buying function is a challenge.

Dansk Supermarked was founded in 1960 and in 1965 50% of the company was purchased by the Maersk Group, leaders in the shipping business. They operate a total of 355 stores with a range of formats including, supermarkets, hyper-markets and discount stores. Total turnover in 1992 was about 22 billion Danish kroner (2.75 billion ECU's).

The Tholstrup Cheese Company was founded in 1893. It is the largest privately owned dairy company in Denmark with an estimated turnover in 1993 of, DKK 807 million (103 million ECU's). It employs about 550 people world-wide and it has sales offices in Norway, Germany, the USA, Finland, Sweden and England. Its production facilities are located mainly in Denmark and it has a factory in the United States.

Dansk had identified logistics as a key area of improvement with suppliers. It has 99% scanning of all chilled, frozen and perishable goods. The individual store is responsible for all order decisions. Ordering is EDP based, going from store to the central warehouses which handle about 80% of the product flow. Order cycles are determined by the EDP system. Based on the order cycle, sales data and promotion schedule, the store places its order.

The key issues is that the Danish market is extremely promotion oriented: a large proportion of weekly sales come from promoted items. The sales multiplication per item on promotion has a significant impact on their replenishment system.

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**Note:**

This case has been presented by: F. Thomsen – Dansk Supermarket  
M. Orum – Tholstrup Cheese



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Given the difficulty of managing these fluctuations in sales, Dansk wanted to test the impact on the replenishment system of giving sales data to the supplier and asking for their recommended order quantity. They wanted to select a supplier with a fast moving product and with flexible operations that could be changed quickly to meet the test needs. Tholstrup Cheese was the perfect partner.

Together the partners set a series of test objectives. These were to:

- increase the turnover rate
- reduce stock-outs
- reduce the number of mark-downs, especially high in perishable goods
- improve freshness, especially important in perishables
- improve supplier understanding of the sales situation

The overall idea of the test was for the supplier to recommend order quantities, while leaving the final order decision to the store. The test was conducted over 9 weeks in 4 stores. The full assortment of Tholstrup, 25 chilled items, were involved including fresh and matured cheese, fresh pasta and sauces. Each store had about 3 deliveries each week.

To start the test, Dansk had to provide Tholstrup with a series of key information. They needed to know sales of the period before the start of the project, sales during the same period the year before, stock on the day Tholstrup took over the order commitment, optimum stock per store and daily sales projections per item.

The new order process went like this. Monday after closing time between 8:00 and 9:00 p.m., Tholstrup received sales and delivery information. Between 9:00 p.m. and 6:00 a.m., Tholstrup worked out the order proposals and faxed them to each store. Orders were worked out based on a model developed by Tholstrup. The store had to return the proposal by 8:00 a.m. When Tholstrup received the final order, it would be fed into the computerised order system and then be packed. All products had to be delivered to Dansk's central warehouse by 10:00 a.m., about a half hour drive from Tholstrup and would be cross-docked.

Initially, Tholstrup employees were enthusiastic about the project. However, it soon became evident that the stores tended to do the things in the same old way.

Information did not flow easily and Tholstrup's proposals were usually not approved. It seemed that the stores did not quite understand the idea of the optimum stock and ordered what they thought they needed instead. The result was that the stores often had far too much stock. In addition, there was a lot of manual work in the project and it was very difficult to make the deliveries on time.

The project leaders felt an operational meeting between Tholstrup managers and each store buyer/manager was necessary to discuss the issues. The meeting was a success. Understanding about the project and of the difficulties improved and attitudes towards the project became very positive. It was found that one clear reason for the problems was that the person responsible for ordering at the store level was often different from one week to another due to illness, vacation and shift schedules. This resulted in inconsistencies in ordering and information given.

Results of the project were good in the end. The turnover rate doubled which helped reduce mark-downs and increase freshness. With the new order process and cross docking, the total stock was reduced from 11-12 days to 7-8 days. The goal is to reach 6 days. The key difference is that in-store stock went from 9 to 4 days. This also had a positive impact on Tholstrup's production of blue cheese: since the time on the shelf was reduced, they had to keep the cheese an extra week in-house, so it would be at the correct maturation point when purchased.

Key findings of the project were that the human element is key to its success. Two similar stores often had very different stock situations due to different ordering styles of the buyers. It takes a significant educational effort to retrain people to change their buying habits. It was also clear that sales data and order proposals had to be given on a chain wide basis. It would be too complex for the supplier to work out order quantities for each individual store on a going basis.

The partners are now working on how this new system could be implemented. They expect it may take 2 to 3 years.

## CONAD & BARILLA

This is a story about collaboration between the world's leading pasta manufacturer Barilla, and one of the most widespread Italian distribution chains, CONAD. The story begins in Italy in 1990 and expands further for both of the companies later. The story comes under the heading of Efficient Replenishment (ER).

In early 1990, the distributor Conad was in its Modena headquarters facing a situation of high stock levels and simultaneous stock-outs at its outlets. The problem could have been solved with the traditional methods where the stocks are decreased in Distribution Centres (DC). In other words, they get more frequent supplies in smaller sizes. This demands greater speed of response (order lead time) of the producers. Everything would be solved with a total distribution channel cost that was higher than the current costs.

Instead, Barilla and Conad studied a new replenishment system and set one up that was essentially based on close operational co-ordination between the two companies.

Barilla was operating in Italy and abroad with a 1990 turnover – the year the collaboration began with Conad – that came to Lit 2.7 trillion (1,5 billion ECU). Barilla uses 33 plants located all across Italy for its production. Direct shipments from the plant to DC's are the least expensive way for Barilla to distribute its whole range of products. Conad falls under so-called Organised Distribution and works in Italy through more than ten large co-operatives and quite a large number of outlets (more than 4,000). In 1990, Modena's Conad co-operative, invoiced approximately Lit 250 billion (140 million ECU) in its Grocery sector (food and household supplies). Its Modena DC received products from Barilla worth roughly Lit 15 billion (8 million ECU) each year (consumer price). This was the equivalent of five full trucks each week.

At the time this project began, Conad had had stocks of Barilla products in the Modena DC for more than three weeks. The stock-outs affected the whole range of Barilla products and wavered around an average of 3.4 percent with peaks of 15 percent during special events. The Modena Conad ordered Barilla products with traditional weekly frequency. Barilla at that time delivered the products requested according to sector standards: after 7-10 days. Conad observed the trend in outgoing goods at the DC, predicted the consumption of the following period, and added a certain quantity of products "just to be safe" when they made the order. This was all done with the goal of balancing order and replenishment costs, with DC management costs and Barilla's distribution costs, of course.

The new system Barilla and Conad decided to try out for at least a year, operates with the following procedures:

- The Modena Conad transmits the requests which the outlets served by its DC make every day, to Barilla via EDI every evening.
- Conad also communicates the stock levels of Barilla products present in the DC and stock-outs that exist when the orders requested from each connected shop are filled.

- Based on the incoming data, Barilla sets up a delivery plan for the following week (for example: four trucks that leave from four different plants).
- Each time a truck is about to leave, Barilla formulates a proposal for supplying the DC a few hours before it leaves (a list of products to load on the truck). It sends this immediately to Conad in order to receive confirmation.
- Conad can accept the consignment as it has been formulated by Barilla, or it may, (based on local factors, unpredicted events, or other considerations), change the order.
- At this point and only at this point, is the go-ahead for delivery given.

Compared to the past, the system operates with the following characteristics:

- Barilla's response to Conad's order drops from 7-10 days to a few hours;
- the economy of transport remains however a fact that is "protected" given that predictions are made each week on the number of deliveries and the trucks leaving each of Barilla's production centres (or distribution warehouse);
- stock-outs are actually eliminated due to the immediacy of response;
- the "reserve" stocks prove useless due to the speed of the system's response. Only order cycle stocks are needed, the ones that compensate for supply intervals.

The results of this new system, this "pilot" experiment, we would like to recall, were attained during 1990 and they were made public (in an official joint release) by Barilla and Conad:

- stock-outs in the DC's dropped from the initial amounts of 3.37% to 0.14%. Significant stock-outs did not occur even during special events.
- stock rotation dropped from 3.6 weeks to 2.2 weeks (as of today, stocks have further dropped to 1.4 weeks).
- the logistic costs followed this trend:
  - *for Conad:* stock costs, -60%; personnel costs, -7%; depreciation, -53%; order management costs were limited just to controlling the supply proposal made by Barilla
  - *for Barilla:* transport costs +6%; warehouse costs underwent no increase nor did management costs (the proposal was automatically carried out using a special algorithm).
- further benefits concerned quality. Among these the most important were: reactivity to the market, freeing up of "commercial" resources that could be devoted more to retailing (instead of buying), linearisation of the demand allowed for improved management of the production capacity, and greater freshness of the products due to lower stock levels.

The Barilla-Conad case started up numerous other ER based projects in Italy. This specific, first "experiment" also aroused a certain amount of interest: the Harvard Business School wrote up a case history that is now discussed in its Masters program.

As of today, Barilla has extended the service to 45 other DC's in Italy (in various distribution chains) while Conad has developed similar forms of collaboration with other suppliers.

## ASKO & PROCTER & GAMBLE

This is a story about collaboration between Procter & Gamble (P&G) and Asko in Germany who are working together in a strategic partnership to better serve the consumer. The partnership is focused on improving efficiency on the total supply chain from production to shelf, to provide consumers with better products, assortment, in-store service and convenience. The specific areas being worked on today are improved logistics and systems, joint planning, innovative assortment, and stronger organisation.

Here, we will discuss a project in the area of logistics and systems. The objective was to improve communications and reduce paperwork by mechanising information exchange using electronic data interchange (EDI).

Asko is the second largest food retailer in Germany. In 1991 total turnover of its food business was 13.8 bil DM (7 billion ECU) generated by 1,256 stores. In 1992 Asko merged with Metro and turnover of the total group in food and non-food is about 60 bil DM (30 billion ECU).

Procter & Gamble is a consumer goods giant that has a world-wide turnover of US\$ 29 billion (22,5 billion ECU). It markets products in the laundry and cleaning, health and beauty care, paper, food and beverage and pharmaceutical categories. In Germany it has eight manufacturing plants.

The goal to mechanise information exchange between these companies was not an easy task. P & G prepared over 35,000 invoices per year just for Asko; on average these orders had 18 order lines and in Asko, P & G had about 320 SKUs.

Before the collaboration project basic information exchange between the two companies went like this:

- information on products and prices were manually distributed by fax or letter to Asko profit centres and maintained in their brand data bases. Based on this information, Asko profit centres would provide orders forms to their outlets to be filled
- A P & G salesperson would go to the shop and check the inventory on the shelf and in the back room. Asko outlets received deliveries directly from the plants. The Sales person would propose the order quantity to the Asko manager. The P & G salesperson would enter the information into the P & G system and the Asko manager would enter the same information into the Asko system
- when the shipment took place, a shipment paper was produced and went with the truck to the Asko outlet
- based on the shipment, P & G would prepare an invoice that was mailed to Asko
- based on the delivery, Asko manually compared the invoice with the goods delivered

In order to reduce the manual steps in the above process, the Companies agreed on the following improvements

- all information on products and prices should be transferred electronically
- all orders entered in the Asko system would be entered electronically in P & G's system

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- shipment and delivery information would be sent electronically from P & G to Asko before the truck arrived, operating also as advice notes
  - invoices would be electronically transferred to Asko, no longer sent by post

While implementing the above activities, several other related issues were addressed. One extra complication in the communication process was that many P & G documents like invoices, price lists, delivery papers, had a different sequence of articles. This made comparisons between for example what was ordered, delivered and billed time consuming and often confusing. Now, articles are listed in the same order in all documents.

Currently, ordering via EDI is under study. However, since deliveries are made direct, to do this Asko would have to invest considerably in systems in each outlet. Nonetheless, a test is underway to evaluate EDI ordering with several outlets. This would happen with the help of a third party data base.

Asko would put the orders in and via a clearing house P & G would take the orders out. The possibility of delivery via a central warehouse is also under consideration.

An additional simplification under consideration is for Asko to get P & G product information directly from a central data base in Germany where P&G currently lists all information on all their products.

The EDI environment was a constraint on the project. Germany is behind in terms of the number of users of a national EDI standard and EANCOM. However, there is an organisation that develops standards between retailing and industry, including data standards. Standards do now exist in terms of transfer of invoice data, products master information and order information. The technical environment is also available via GE or IBM.

Critical for the success of the project was to have direct contact between the key areas affected by the project. Systems, logistics and finance departments from both companies were closely involved. This was facilitated by P & G's new organisational structure. In Germany, like in the UK, P & G has developed a customer service department. Its function is to take, plan and handle orders including distribution. It also processes invoices and controls payments. This unified and focused approach to customer service made implementation of new processes going from orders to delivery to invoices much easier.

## COOP SWITZERLAND & NESTLÉ

This is about collaboration between the two Swiss companies Nestlé and COOP, in the instant coffee segment. Let us start with a profile of the two key players. COOP is the largest retailer of brand name products in Switzerland. In 1991 the food and non-food turnover of the group was 4,4 billion ECUs. COOP operates approx. 1200 retail stores.

In the instant coffee category, COOP had a market share of 31%; the main competitor in this category runs business fully with private labels and reached a market share of 25%. This superior position of COOP was no doubt mainly achieved behind the strength of the key brand Nestlé.

Nestlé invented spray-dried soluble coffee in 1938. Behind key product innovations its total sales in Switzerland reached 58 million ECUs in 1992 for a market share with a value of 67.2%. Initiatives crucial for Nestlé's growth were its freeze-dried technology introduced in 1965 and new brand Cappuccino launched in 1991. In the Nestlé portfolio, Nescafé Gold is the clear leader with a 37.9% share. Nestlé's success is due also to its heavy marketing support behind the brand. Nestlé's share of voice (SOV) in the total coffee market, including roast & ground, was 28%, which represents a leading performance as well.

Based on the above market scenario, with both COOP and Nestlé clear leaders in the category, one might ask why did they both want to collaborate?

COOP had identified the instant coffee category as an area for collaboration because of its large size, its potential for product innovation and its competitive situation. Although COOP was leader in this category, the market share of the main competitor was growing because COOP did not fully match the needs in the low priced segment beyond the brand name field.

When COOP decides to collaborate in a category, it looks for a partner whose branded products are highly appreciated by a large number of consumers. The partner is together with COOP ready to invest heavily in the category and consider the partnership as a long-term strategic alliance. Furthermore the partner must be willing to accept COOP'S strategy to develop its private label business to enable COOP full access to the needs of private consumption. And finally, the partner must be open minded to data exchange and real collaboration.

Nestlé was the perfect partner for COOP. It is leader in the category, invests heavily behind its brands, has proven to be a leader in technology and its strategy is to position its brand in the premium or middle priced range and does not compete in the low priced/private label segment.

For Nestlé, collaboration with COOP was an excellent opportunity to improve its market position, optimise its return on trade investment, improve logistics, and improve its understanding of retailing techniques to better serve its customers.

Overall, COOP's philosophy towards collaboration is that the project must have long term market focus and be fully based on consumer needs. The first step of the collaboration was for the partners to agree on the project objectives.

Specifically, these were to increase COOP's market share. To optimise sales and promotion in all COOP stores including standardising pricing and promotions to communicate a clear and strategically sound message to all consumers. And, to create a strong identification of COOP in the instant coffee segment.

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**Note:**

This case has been presented by: D. Noirjean – COOP Schweiz  
M. Adank – Nestlé

After one year, results were very positive. The market share and the profit increased for both partners significantly above the objectives. During the same time period, the main competitor's market share grew less fast.

Based on the success of the project in year one, during year two the partners will continue to strengthen their market position and will make further improvements in logistics to optimise profits further.

## PROMODÈS-BSN

This is about collaboration in the area of merchandising between BSN and Promodès. The two giants run a project of linear space optimisation on the French biscuits market.

BSN is the largest French food producer with a turnover of 70 million FF (10 million ECU). The BSN brand that participates in the project is l'Alsacienne brand, which is number two in the French market with a share of 8%.

Promodès is one of the top French retailers with a turnover of 127 million FF (18.5 million ECU). It participates in the project with its most important hyper market chain "Continent" which represents one half of the total group turnover with 156 hyper markets.

The collaboration project was possible because of Promodès objective to establish new relations with suppliers. The aim was to better understand each other and change the present adversarial attitude in the French industry.

L'Alsacienne was first to take the opportunity offered by Promodès and to run a pilot project in a new area of collaboration, less known for its benefits.

Merchandising was selected as an ideal field to develop collaboration, because both partners could bring the project distinctive and complementary skills and knowledges.

The biscuit market had many favourable conditions for SRC in merchandising and space optimisation:

- since it is a market of very wide consumption, a good result in this category would represent a significant increase in volume and revenues;
- it is a very segmented market because of the numerous varieties offered: therefore it has a lot of product families and consumer needs to be understood;
- it is very fragmented on the supply side. The first three brands (l'Alsacienne, Lu and Belin, all belonging to BSN) have a market share of 45%. Private label is 4%. The other half of the market is held by 100-150 producers;
- the consumer is confused by the biscuits line-up;
- weak space allocation generates frequent stock-outs.

The first important goal to achieve was for the partners to understand each other better. French suppliers and retailers often ignore the constraints and strategies of their counterpart. This has been worked out by discussing each other's strategies, and pointing out the similarities and differences. Divergence points have been systematically left out and the work has been focus on convergence points.

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### Note:

This case has been presented by: J. J. De Tournay – Promodès  
M.A. Coirier – BSN

Nevertheless it seemed necessary to lay-down some key rules:

- all information is to be shared with complete transparency with the exception of costs and prices of competitors;
- both sides are not allowed to question the commercial terms first stated. Promodès did not enter this collaboration programme to get better financial conditions. Neither did l'Alsacienne want to increase its number of items on the "Continent" shelf. The aim was to optimise what already existed;
- both sides are committed to integrate the constraints of their own policies;
- both sides accept to revise their own merchandising policy;
- both sides have to perform different tests according to respective distinctive competencies and possibilities;
- both sides have to inform and train their own sales force.

Continent – l'Alsacienne collaboration is based on the common points of both strategies. Within this objective key field actions have been:

- comprehension of consumer needs and consumer segments;
- analysis of the perception of the market in the mind of the sales force and "head of department";
- space organisation by testing different layouts and different shelf position;
- optimisation of linear space;
- comprehension of the stock-outs problems.

The work consisted in the following tasks:

- Continent ran an analysis of sales and internal management data;
- worked out a questionnaire about the perception of the market to the "head of the department";
- collected data from the 7 stores of the sample;
- proposed a reallocation of space;
- l'Alsacienne ran a consumer survey in the field;
- collected the data of the 7 stores tested;
- analysed the feelings of their own sales force;
- proposed a reallocation of space.

The results of this collaboration were considered very satisfactory and led to a better knowledge of the market, consumer behaviour, the sales force and purchasing department attitudes. The category turnover has increased by 11.5% and profit margin by 5%: this is considered very good, since one third of all French sales are at a loss.

Another important finding is that the implementation of a quality approach does not necessarily involve large financial means: a little money was spent for the consumer survey and to elaborate the tools (mainly for training).

The main problems encountered were communication problems due to the incompatibility of information systems. Most of the work had to be done twice because the systems didn't communicate and operated on different standards.

After this successful test, the two companies plan to extend this reallocation of space to all the stores of "Continent" and to continue to work together on consumer in-store information. The following phases are the optimisation of logistical flows to fight against stock-outs problems.

The feeling of the two companies is that having performed well on this first collaboration other projects can now be undertaken.



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## CAPRABO & GALLINA BLANCA PURINA

This is a story about collaboration between a Spanish retailer and a supplier working together in the area of promotion planning to better understand a common consumer and increase consumption of pet foods.

The retailer is Caprabo, a supermarket chain located in the region of Barcelona. Its annual sales in 1993 are estimated at about US\$ 365 million (280 million ECUs), representing a growth of about + 20% versus 1992. It has 48 supermarkets and has recently opened seven hyper markets with a total of 46,500 square meters of selling space.

The supplier is Gallina Blanca Purina, a joint venture formed in 1963 between the Ralston Purina Company and the Agrolimen Group. The company operates in three areas, agricultural products or animal feed, pet food and breakfast cereal. In 1992 its revenues were about US\$ 200 million (160 million ECUs) generated by products produced in its 8 manufacturing plants.

The parent company, Agrolimen, is a Spanish holding company that operates in the fast food, diapers, baby care and confectionery categories. The other, Ralston Purina, is the largest world-wide producer of dry dog food and dry/soft cat food. Its main brands are Cat and Dog Chow and other main brands are Chex cereal, Wonder and Hostess baked goods, and Ever ready and Energizer batteries.

In the food chain the pet food market is about 13.6 billion pesetas (100 million ECUs) or 49.900 tons. It splits into about 54% in dog food and 46% in cat food. The dog food market is growing at about 3%, with the larger dry segment growing at 17%. Ralston Purina has a 45% share with Nestlé's Friskies brand number two at 20% share.

The cat food market is growing at 16% while the dry segment is growing at + 21%. Ralston Purina is the market leader with 42% share and Nestlé's Friskies is number two with a 25% share.

Given this market background, Caprabo and Ralston Purina wanted to increase their understanding of their consumers. They knew that consumers in Spain serve their pets a mix of both home-made and branded pet foods. In order to encourage owners to increase consumption of branded products, Caprabo and Ralston Purina knew they had to offer owners unique promotions and/or personalised service. Together they agreed to build a shared data base which they could use for direct marketing activities. Their objective was to collect the following information from pet owners: name, address and phone number, type of pet, date of birth, size breed and feeding habits (wet, dry home-made or a combination of the three). To collect this, the partners ran a direct mail programme to all Caprabo magazine subscribers, about 36,000 clients. If consumers answered the questionnaire and turned it into their local Caprabo store, they received one of three different gift packs, depending on if their pet was a dog, cat or puppy. The brochure was of very high quality and the gift pack of high perceived value to ensure the data base was the highest quality possible.

The response rate was excellent, with 16% of questionnaires returned. Results indicate that the percent of Caprabo's clients who are pet owners is slightly lower than the average. As suspected, a large percentage of both dog and cat food consumption is of home-made food. About 72% of dog owners feed their pets or only home-made or a mix of home-made and dry/wet bought food. For cats the percent is about 52%.

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**Note:** This case has been presented by: P. Botet – Caprabo  
I. Juanola – Gallina Blanca Purina

Currently, the partners plan to use the data base to introduce a new line of cat products to cat owners. Data base participants will receive a coupon allowing them to buy 3 varieties for the price of 2. This will be an offer unique to them since the products will be sold on the shelf at full price.

Cost of the project was minimal. Key people involved were a project manager from each company who worked with their experts in EDP, manufacturing and warehousing. This collaboration between supplier in retailer in Spain is very unusual. These two partners wish to expand their initial collaboration into other areas. The next project is to work together in the area of space management in the whole pet food category.

### HAKON GROUP & COCA-COLA

This is about collaboration in the area of marketing between the Coca-Cola Company and a fast growing Norwegian retailer.

There are about 5890 grocery stores in Norway that generate total sales of about 7 billion NKR (0.9 billion ECUs). The discount market is about 30% of the market and this segment has a policy of everyday low price with little promotion activity.

The Hakon Group is one of the fastest growing retailers in Norway. In 1987 it had 45 stores and a market share of 2%. In 1993 it has 480 stores and a market share of 24%. It has a lean organisation and the average age of the management group is about 35. One of the President's key strategies is to develop exclusive promotions with key Suppliers in order to increase consumer traffic and consumer purchases.

The Coca-Cola Company was the perfect partner for collaboration. There was a good relationship between top managers of the two companies. Coca-Cola had worked closely with the Hakon group since 1987, even when it was a small player in the market. The soft drink market is large, generates good margins and has fast rotation. The Coca-Cola Company is very market-oriented with a leadership position in Norway. Finally, a successful marketing collaboration with a high profile client like Coca-Cola could help encourage other non competing suppliers to adopt the same approach.

Coca-Cola and Hakon Group together set objectives for their new approach to marketing. Specifically, they decided to implement a process to utilise all the marketing vehicles available to accelerate growth by joining resources and following a single strategic idea. This included working together to define and execute promotions, merchandising, advertising, space management. The promotions that Coca-Cola runs with this retailer are not run in any other chain.

The process development started in June/July 1992 with the identification of the market potential and key issues. Then came the phase of joint planning; setting strategies, objectives and specific merchandising and promotion activities. Programmes were then approved by the Hakon Group, Coca-Cola Norway, and the bottlers. The information was passed to the sales force and store managers/employees. Activities implemented are evaluated based on sales generated, in-store execution, and costs. The evaluations are fed back into the system for future improvements.

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**Note:**

This case has been presented by: O. Hagen – Hakon Group  
P. Farovick – Coca-Cola

The objectives of the first year were to grow twice as fast as the market segment, to give consumers "a reason" to buy Coca-Cola, and to increase store manager involvement in generating volume growth. Over 22 weeks of promotions were planned, many using Coca-Cola's sponsorship of the Olympics as the key attraction. The partners held a big kick-off meeting with about 1000 people including store managers, merchandising people, and bottlers. To help execute the promotion activities, Coca-Cola hired about 40 people responsible for managing merchandising activities on Fridays, Saturdays, and Sundays. These 40 people worked almost exclusively in the Hakon stores.

Results after the first quarter were good. Total Hakon Group growth was 52%. Most of this growth was due to new store openings or acquisitions. However, on a same store basis, growth was 18%. Growth for Coca-Cola was about 9%. Key to its success was the strong commitment from top management and the organisational structure of the key players. Coca-Cola no longer has brand managers. Managers are instead responsible for trade channels and have counterparts in the bottlers' organisation. This helps the transfer of promotion activity through the bottler to the trade. Coca-Cola also has key account people who are organised by geographical regions. This allows the maximum link between the headquarter's channel manager and issues on a store by store basis.

The partners will continue with this approach to marketing planning in 1994. They are trying to further improve information flow between Coca-Cola, the bottler and the Hakon Group. The Presidents of the two partners are already directly connected by computer. By the end of 1993 the channel managers should be directly on-line with the bottlers.

## DELHAIZE LE LION & HOT CUISINE

This is a story about one of the oldest retailers in Europe, Delhaize "Le Lion" and how they collaborated with a supplier to develop a unique line of store brand prepared chilled meals.

Delhaize "Le Lion" is about 125 years old and was the first company to open a supermarket on continental Europe. The group's total turnover in 1992 was 327 billion BEF (8 billion ECU) generated by 1453 outlets around the world. In Belgium Delhaize has 412 outlets, 110 supermarkets, 186 affiliates, 52 discount stores called Dial, 61 drugstores, and 3 stores specialised in petfood. The group is well represented in the USA with 1012 Food Lion stores and 7 Cub food stores. In Greece it is present with 15 stores called Alfa-Beta Vassilopoulos and 7 stores in Czechoslovakia under the Delvita name. World-wide, the group employs 76,000 people.

In Belgium, Delhaize had a turnover in 1992 of 91 billion BEFs (2,2 billion ECU), representing a growth of +6% vs 1991. It has a significant market share, 28% of the Nielsen market of 10% of the total national food consumption. It has strong international links, and is part of a joint buying group with Sainsbury in the UK, Esselunga in Italy and Paridoc in France.

In 1990, the chilled prepared meals market for Delhaize was very small, representing only about 2% of total turnover. However, Delhaize management responsible for the department was convinced that there was significant potential for growth. They had seen abroad how large the fresh prepared meals section had become in retailers like Marks and Spencer. In addition, they felt the national brand name products in Belgium were of poor quality. This led them to develop plans to launch a private label line of prepared freshly ready meals. They were very lucky to find the perfect partner, Hot Cuisine.

Hot Cuisine is owned by the Carestel Group founded in 1975 by two Belgian businessmen, Jean and Emile Van Milders. Their original business was concentrated in the brewery and soft drink business, they own 3 Coca-Cola bottling and distribution centres. They have since diversified into the restaurant, catering, hotel and elderly care businesses. Hot Cuisine is the food company that develops and produces fresh, refrigerated and fully prepared meals for the groups' many restaurants, hotels and residences for the elderly. Via a joint venture in Spain, they were responsible for producing the 30,000 meals a day necessary to feed the athletes and officials of the 1992 Olympic games.

In 1975, a superior technology for making prepared meals called "vacuum cooking" was developed in France. Hot Cuisine had mastered this new method and used it to develop products for the catering channel. The process takes high quality, fresh raw ingredients, places them in a pouch, draws out all the air and seals the pouch. The pouch is cooked in a low temperature high humidity oven and rapidly chilled without freezing. This technique requires a lot of know-how and trial and error since the ingredients interact in a different way versus traditional cooking. Results in taste and texture are however superior to traditional cooking. There is a higher retention of original flavours, aromas and juices. Meat is more tender since it is cooked at lower temperatures for a longer time. It is a natural cooking process so there is no addition of colouring or preservatives. This means reduced need for salt and there is also less waste. In traditional cooking shrinkage is 25%-30% but with the vacuum method it is only 2%-8%. Importantly, shelf life is also increased. Fresh products last 2-3 days while vacuumed products have a shelf life of 21 days with no difference in quality.

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**Note:**

This case has been presented by: M.Hendrickx – Delhaize  
D. Massalis – Hot Cuisine

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In 1990 Delhaize was looking to find a supplier that could provide them with a superior and exclusive line of fresh prepared meals. Delhaize wanted to compete with both the existing brands but also offer a lower cost alternative to eating out. Their objective was to be priced – 20% versus the current brand leader. The vacuum technology was by then known in the hotel and catering sector but not yet utilised in the retail channel. Hot Cuisine was an expert in the field and did not yet supply any retail competitors. In 1990 an agreement was made between the companies and by 1993 they had 21 dishes launched in store.

Success of the project was immediate. In the first year the products tripled in sales and in volume. In 1992 sales and volume doubled and in 1993 sales and volume is projecting to grow at about + 40%. The chilled prepared meals department is now in 1993 about a 10% of sales and 8.4% of volume, up from 4% and 3% in 1991.

Both companies agree that the success of the project is due to the fact that first, the products are of superior quality, comparable to restaurants but lower priced, second, the products are exclusive. Hot Cuisine agreed not to supply other retail chains in Belgium (but they are free to export) and Delhaize agreed not to stock other brands that use the same technology. Third, both parties agreed to make a financial investment in the project. They both work with reduced margins with the understanding that after they reach certain volume objectives and market share they will improve margins on both sides.

The two companies have developed a very efficient process to develop and launch new products. First they brainstorm together on new product ideas and new consumer needs. Hot Cuisine does research to develop possible products and run internal and external panel tests and bacteriological analysis. If the products are approved they send samples and costs to Delhaize. Delhaize runs panel tests. If the results are not positive or costs are too high, Hot Cuisine goes back to the drawing board. If results are positive, Delhaize develops packaging, and plans the launch. Hot Cuisine plans production and Delhaize is responsible for the sales and promotions. Time from product proposal to launch is on average about one month. This efficiency is due to the lean structures of both Hot Cuisine and Delhaize.

At Hot Cuisine only three people are involved in the project, the General Manager, Sales/ Marketing Manager and the Product Development Manager. At Delhaize one Buyer is responsible for the project. He claims his efficiency is due to the fact that no other marketing department is involved, so decisions get taken fast.

Investments to start the project were minimal. Hot Cuisine had to buy an automatic packaging machine, a separate packaging area, and extra space for storage. In terms of on-going costs, they are responsible for all product development costs. Delhaize is responsible for packaging development, advertising and promotion costs.

In the future, the partners will launch a new range of fresh soups. They will introduce a new “dish of the month”. Successful dishes will be added to the ongoing permanent line. They are also developing a range of fresh sauces and frozen ready meals. This will allow them to use more difficult raw materials like scampi and fish. They are also working to introduce environmentally friendly packaging.

This flow of joint activities is developing a strong trust-based relationship between the two companies. Trust is the real key word since there is no contract to govern their collaboration. It is important to notice that both names Delhaize and Hot Cuisine are clearly on the pack.

## ALBERT HEIJN & BAKKER- FATELS

This is about collaboration between a Dutch Retailer and Supplier in the fresh produce market. Their relationship is so close and transparent that the two are almost integrated.

Albert Heijn is the leading supermarket chain in Holland with a share of 27%. It has about 600 supermarkets, 142 of which in franchising. Total sales in 1992 were DFI 9.6 billion (4.2 billion ECU's) and it has 45,000 employees. The average store size is 10,000 square feet and sales per square feet are 33.5 DFI per week (14.7 ECU's).

Albert Heijn's mission is to supply the total Dutch population with food in modern stores that offer a large variety of well presented products with an excellent price/quality relationship. It has qualified and friendly personnel, that provide good customer service. Albert Heijn is the superior place for one-stop-shopping.

The fresh produce department at Albert Heijn is considered important for the store image. Fruits and vegetables are increasingly important in today's menu. Freshness and quality of these products are easily perceived by consumers and have an impact on the quality image of the whole store. Turnover of these products is very fast. Sales contribution and gross profit contribution is well over fare-share. The product group is a challenge to manage because of the large fluctuations in availability, demand, quality, source and shelf life. There are few professional large scale suppliers and too many intermediaries.

Bakker Barendrecht and its new acquisition, Fatels/Holland Crop, are a growing, transport, buying, and packaging company specialised in fresh produce. The total group's turnover is DFI 325 million (141 million ECU). Albert Heijn is their main client and represents 70% of their annual sales.

Albert Heijn believes strongly in partnership with its suppliers. To deal successfully with increasing complexity of their business and reduced margins they must become more professional and achieve complete co-operation in the supply chain. To Albert Heijn this means a change in the "normal" relationship with suppliers. Instead of separated management, there must be an integrated approach to supply chain management. Instead of a relationship based on a small spectrum of activities, the scope of activities must be broadly based. Instead of an unwillingness to share information, parties must be prepared to be more transparent. Instead of power games, mistrust and short term successes, there must be a balance of power, trust, co-operation and long term continuity. Total performance and the bottom line is what counts. And a planned, professional approach is the only way to work.

What does this mean in concrete terms? That Albert Heijn works as much as possible in exclusivity with Suppliers that can provide the broadest set of services at the lowest total cost. It has one large supplier for each product group per country. This is based on its objective to reduce costs in the supply chain. It also allows for planned production, packaging and joint sales and promotions. In the produce business both for imported and locally grown goods, the chain is made up of 6-8 intermediaries.

For the import business there are growers, buyers, packers, exporters, agents, importers, wholesalers and then finally retailers. Albert Heijn estimates that each link costs 2%-8% of sales.

Bakker is an ideal partner for Albert Heijn. It offers a wide range of services, avoiding the need for unnecessary intermediaries and extra costs. The objectives of the partnership are to have:

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**Note:**

This case has been presented by: P. Haagsma – Albert Heijn  
J. Van Buren – Bakker-Fatels

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year-round production of consistent quality; availability of high volume new products exclusively for Albert Heijn; tailor-made and exclusive packaging at the origin; economies of scale and just-in-time transport; insight in harvest fluctuations; prices based on cost-plus not on market fluctuations; and strong integrated quality control.

Specifically, Bakker has 2,000 hectares of land under contract where it grows its own produce. The only retailer in Holland it supplies is Albert Heijn; however, it can supply other channels like catering.

This production guarantees Albert Heijn a stable base of high quality products in stock from a known source. These products are fresher than goods bought at auction because for example, an iceberg lettuce picked one morning at Bakker is on the shelf at Albert Heijn by the next morning. Goods sold via the auctions arrive one day, are sold the next day and transported the next. Products grown at Bakker help ensure quality. Bakker onions are currently grown with amounts of fertiliser and pesticides far below the maximums allowed in the year 2000. The partnership with Bakker also allows Albert Heijn exclusive opportunities for new products. Bakker co-operates with a leading University in Holland to do research and development on new products, environmental issues and new packaging.

Despite having its own production, Bakker also handles all the local auction buying for Albert Heijn. Auctions are the most efficient way of moving product. For example, half a million cases of tomatoes can be easily sold in 15 minutes. The only problem is that you are never sure of the source and everyone in the market has the same product. However, auctions are an important price indicator and help Bakker stay competitive with its own produce.

Bakker has both cooled and ambient packing facilities with a total capacity of 50 million consumer units. 75% of this capacity is used to serve Albert Heijn repacking products ordered from aboard that Albert Heijn cannot accept directly in its produce centres. Transport to Albert Heijn is also managed by Bakker. They own 30 temperature controlled trailers and rent another 30 to make deliveries 3 times a day to each of Heijn's 5 produce centres. Bakker management claims they sometimes treat Heijn's products better than their own. Bakker has its own standardised crates which make logistics easier for Heijn on the receiving end. Bakker also stores and washes the crates many times during the year which they assured us is no easy task. It has a banana ripening facility with capacity of 30 thousand cartons per week. 70% on the capacity is bought by Albert Heijn. Bakker also has a quality control department so Heijn does not have to staff up for that function.

Communication between the two partners are frequent and very transparent. They meet to discuss promotions, and discuss daily stock and shipments to the produce centres. Buyers calculate integral costs and keep track of total cost to offer the lowest possible price. Part of savings achieved by Bakker are often openly discussed and passed on to Heijn.

Often Heijn receives bids from other companies who claim that their costs for a product are lower than Bakker's. However, Bakker's advantage is in the total integrated service they can offer to Heijn. Bakker employees work hard and are paid well to offer the lowest prices and best services possible to Heijn. Via the auction system, competitive prices are readily available so Bakker has to prove itself daily as the low cost supplier. No question that as Bakker management says "Albert Heijn's business is a matter of survival for us". However, Heijn is in the partnership with a long term view and to switch suppliers would be easy but costly.

With such a close relationship, the question arises "why doesn't Heijn just buy Bakker". The answer is that Heijn's core business is retail not sourcing and transport. Services kept outside the company in such a competitive environment are an effective way to focus on key competencies and to keep costs to a minimum.

## *APPENDIX 2:*

### *FIELD RESEARCH*

Our Field Research was organised thus:

- 174 companies were invited to attend an introductory seminar on SRC. This was organised in five different countries and in five different languages. The material used in the seminar had been agreed upon with the Sub Committee and consisted in our findings in the first phase of the project;
- a questionnaire with 46 questions (see page 147) on the participants' experiences and opinions about SRC was distributed and explained during the seminars. 127 companies accepted to fill in the questionnaires and return them to us, (having being guaranteed anonymity).

The results obtained from the questionnaires are extremely valid because:

- the sample of respondents (see table A2.1, page 144) is excellent as it covers a very large share of the grocery business in Europe. It can therefore be considered as a set of significant answers at three levels:
  - overall
  - separately by retailers/suppliers
  - separately for each geographical group

It is not meaningful, however, from a statistical point of view to cross-analyse this information;

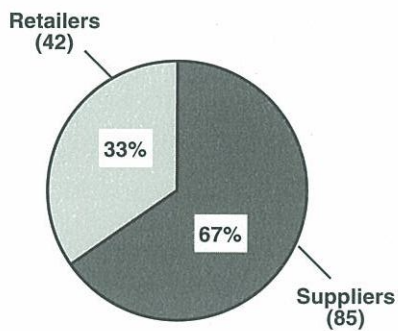
- as many of the questions were left open, the comments made (sometimes quoted in the text) have provided us with a wide range of enlightening opinions on several areas of collaboration;
- the typical participant is very representative both in quality and size:
  - 48% of participating retailers, (with an average turnover of 2.9 bn ECUs), are in the "top seven" ranking of their countries
  - all the suppliers, (with an average turnover of 1.6 bn ECUs), are in the "top five" ranking of their product categories.

This Appendix also contains a full list of participants in the Field Research, and the list of the questions addressed in the questionnaire.

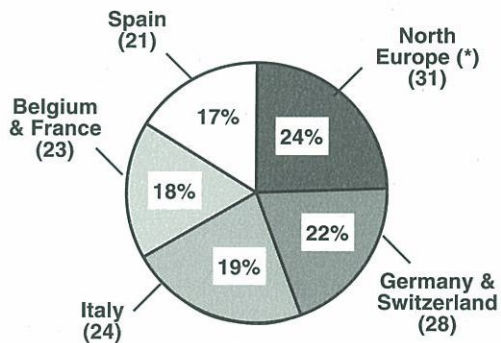


**A.2.1. Field Research Participants**

**Total Sample**  
**127 companies = 325 bn ECU turnover**

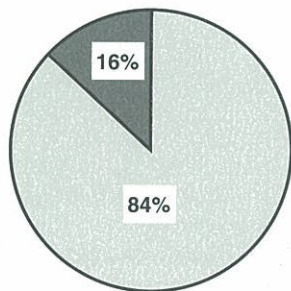


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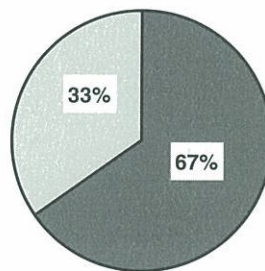


**LOCATION**

**% Multinationality**



**RETAILERS**



**SUPPLIERS**



Note: (\*) Ireland, Netherlands, Scandinavia, UK

Source: Field Research

## *LIST OF RESEARCH PARTICIPANTS*

### **NORTHERN EUROPE**

Ireland (IR) + Netherlands (NL) + Scandinavia (N + S + D) + United Kingdom (UK)

#### **Suppliers**

Abba (S)  
 Birds Eye Walls (UK)  
 Cadbury (UK)  
 Colgate Palmolive (UK)  
 Colmans of Norwich (UK)  
 C P C (UK)  
 Golden Wonder (UK)  
 Homepride Foods (UK)  
 HP Foods (GB)  
 Koninklijke De Ruijter (NL)  
 KP Foods (UK)  
 Lever Bros. (UK)  
 Lyons Tetly (UK)  
 Marabou (S)  
 Moy Park (IR)  
 Nestlé (UK)  
 Quaker Oats (UK)  
 Procter & Gamble (S)  
 Reckitt & Colman Products (UK)

#### **Retailers**

A. Heijn (NL)  
 Asda Stores (UK)  
 Booker (UK)  
 Dansk Supermarked (S)  
 Gateway (UK)  
 Groma Konsum Stockholm (S)  
 Hakon (S)  
 ICA (S)  
 Norges Coop. (S)  
 Superquinn (IR)  
 Tesco (UK)  
 Wm Low (UK)

### **GERMANY (D) + SWITZERLAND (CH)**

#### **Suppliers**

H. Bahlsens Keksfabrik (D)  
 Coca-Cola (CH)  
 Coca-Cola Erfrischungsgetranke (D)  
 Conditorei Coppenrath & Wiese (D)  
 CPC Deutschland (D)  
 Gubor Schokoladenfabrik (D)  
 Henkel (D)  
 Kambly (CH)  
 Knorr Naehrmitel (CH)  
 Kraft Jacobs Suchard Service (D)  
 Johnson & Johnson (D)  
 Lever (D)  
 Melitta Haushaltsproducte (D)  
 Milupa (D)  
 Nestlé (CH)  
 Piasten Schokoladenfabrik (D)  
 Ricola (CH)  
 Schoeller Lebensmittel (D)  
 Unifontes (CH)  
 Union Deutsche Lebensmittelwerke (D)  
 Wander (CH)  
 Wella (D)  
 Zweifel Pomy Chips (CH)

#### **Retailers**

Asko (D)  
 Coop - Schweiz (CH)  
 Dm-Drogerie markt (D)  
 Karstadt (D)  
 Nurnberger Bund Grosseinkauf (D)

**ITALY (I)****Suppliers**

Barilla  
 Bauli  
 CPC Italia  
 Coca-Cola Italia  
 Dreher  
 Henkel  
 Johnson Wax  
 Lavazza  
 Nestlé  
 Procter & Gamble  
 Quacker Oats  
 Reckitt & Colman  
 Saiwa  
 Scott  
 Unil-it (Vanderberg)

**Retailers**

Conad  
 Coop Italia  
 Despar  
 Gruppo G  
 Supermercati GS  
 La Rinascente  
 Gruppo PAM  
 Consorzio Unvo  
 Vegè

**BELGIUM (B) + FRANCE (F)****Suppliers**

CPC France (F)  
 Delacre Biscuits (F)  
 Elida Gibbs Fabergè (F)  
 Eridania Begin Say (F)  
 Eurosucre-Generale Sucrière (F)  
 Hartog (B)  
 Interbrew (B)  
 Kraft General Foods France (F)  
 L'Oréal (F)  
 Lever (F)  
 Melitta France (F)  
 Pernod (F)  
 Procter & Gamble (F)  
 Schweppes France (F)  
 Spadel (B)  
 Teisseire (F)

**Retailers**

Battard (B)  
 Casino (F)  
 Delhaize Le Lion (B)  
 Docks de France (F)  
 Guyenne et Gascogne (F)  
 Prisunic (F)  
 Promodès Continent (F)

**SPAIN (E)****Suppliers**

Arrocerias Herba  
 Coca-Cola Espana  
 Cuetara  
 Ebro Agricola  
 Gallo  
 Johnson's Wax  
 Kraft General Foods  
 Navidul  
 Nutrexa  
 Procter & Gamble  
 Reckitt & Colman  
 Starlux

**Retailers**

Alcampo  
 Autoservicios Caprabo  
 Coaliment Granollers  
 Continente  
 Dia  
 Hipercor  
 Manuel Barea  
 Pryca  
 Sabeco

## LIST OF QUESTIONS

1. **EFFICIENT OPERATING STANDARDS (EOS).** This is when Suppliers and Retailers work together to optimise product flow without exchanging sales data or other confidential information
  - 1/A *Level of experience.* What is your experience in EOS? What specific steps have you taken to improve your logistics flow
  - 1/B *Results.* What were the results of the work completed or in progress in Efficient Operating Standards?
  
2. **EFFICIENT REPLENISHMENT (ER).** This is when Retailers give Suppliers sell-in or sell-out data to allow them to share responsibility for deliveries within agreed levels of stock and service
  - 2/A *Level of Experience.* What is your experience in ER?
  - 2/B *Results.* What are the results of work completed or in progress in Efficient Replenishment ?
  
3. **ESTIMATED COSTS/BENEFITS**
  - 3/A *Cost level* with specific reference to the flow through RDC only, what are your current estimated distribution costs (RDC + POS for Retailers) as percentage of your grocery sales?
  - 3/B *Estimate of benefits.* From our study, we estimate that Efficient Operating Standards and Efficient Replenishment can generate the following impact on logistics costs through RDC (expressed as % of consumer retail price). What is your reaction to our estimates?
  
4. **ORGANISATIONAL STRUCTURE.** Traditionally, the organisational structure of Suppliers and Retailers have not facilitated direct functional interface. This dialogue is both the cause and effect of collaboration
  - 4/A *Organisational Interface.* In general, does your organisation facilitate direct communication with your functional counterpart?
  - 4/B *Participation in the decision making process of trade terms.* Which of the following functions within your company help Sales/Buying to define trade terms with their counterpart?
  - 4/C *Meeting between functional counterparts.* Which of the following functions meet regularly with their Supplier (or Retailer) counterpart?
  
5. **EXCHANGE OF INFORMATION.** Exchange of information previously considered confidential is a prerequisite for Supplier Retailer collaboration
  - 5/A *Logistic Costs.* Would you be willing to openly discuss your logistic costs with your counterpart in order to try to understand how you can reduce total logistic costs in the supply chain?
  - 5/B *Stock – Sales.* Would you be willing to give your counterpart the following information?
  
6. **PLANS THROUGH 1996.** What plans do you have to improve the logistics flow between Supplier and Retailer?
  
7. **TRANSMISSION VIA EDI.** Which documents are/will be transmitted via EDI with your counterpart?
  
8. **EDI INTERFACE.** With how many counterparts do you have/plan to communicate with regularly using EDI?
  
9. **ESTIMATED BENEFITS.** Our study indicates that efficient administration via EDI can generate the following cost reductions. Results are expressed in % of consumer retail price
  - 9/A *What is your reaction to the above estimates?*
  - 9/B *Benefits-Problems encountered.* What results have you achieved from activities completed or in progress to improve efficiency in the administration of business with your counterpart?
  
10. **OBSTACLES TO ADOPTION OF EDI.**
  - 10/A What are the key obstacles to EDI?
  - 10/B *Solutions* (relevant only to those obstacles you consider to be important). How did you overcome or plan to overcome these barriers?

- 
11. **USAGE OF EPOS DATA.**
    - 11/A *Level of use.* What is the current status?
    - 11/B *Generation of orders using EPOS.* In the case that you use EPOS data to automatically generate orders, what are the characteristics of your most sophisticated system?
  12. **PLANS THROUGH 1996.** What plans do you have to implement EDI communication systems with your Supplier (or Retailer) counterpart?
    - 12.A *EDI Connections.* With how many counterparts are you connected or planning to be connected?
    - 12.B *Use of EPOS data.* What are the most important plans you have for using EPOS data?
  13. **LEVEL OF CURRENT COLLABORATION.** Please describe the current level of collaboration with your typical Supplier (or Retailer) counterpart in the area of defining store assortment.
  14. **DESCRIPTION OF COLLABORATION PROJECTS COMPLETED OR IN PROGRESS:**
    - 14/A *Exchange of Information.* What market information have you/will you share to collaborate in store assortment?
    - 14/B *SKUs (stock keeping units) and shelf space.* How are decisions usually made concerning addition and elimination of SKUs, and allocation of shelf space?
    - 14/C *Results.* What results did you achieve/will you achieve from collaboration in store assortment (exchange of data, long term strategies, functional interface, reduction of number of facings, increased sales, increased profitability of space)?
  15. **ESTIMATED BENEFITS.** Our study shows that improved collaboration in the area of efficient store assortment in one given grocery category can generate the following results. What is your reaction to our estimates?
    - 15/A *Do you think the quantitative results are?*
  16. **ORGANISATIONAL CHANGES.** How has the development of category management (C.M.) at the Retailer impacted your organisational structure?
  17. **REDUCTION OF SKUs.** In your experience, is there pressure from Retailers on Suppliers to reduce the number of SKUs per brand/product line.
  18. **EFFICIENT ASSORTMENT.** Which criteria do you use to help make efficient store assortment decisions and how important are they?
  19. **CATEGORY MANAGEMENT**
    - 19/A *Have you adopted* the concept of category management in your organisational structure?
    - 19/B *Responsibility of Category Managers.* What are/should be the key responsibilities of the category manager?
    - 19/C *Management Systems.* What are the most important tools that you use or are developing to support the category manager?
    - 19/D *Evaluation.* Based on what criteria are/will your category managers be evaluated?
  20. **PLANS THROUGH 1996.** What plans do you have for improving your store assortment via greater collaboration with your Supplier/Retailer counterpart by 1996?
  21. **PLANNING AND IMPLEMENTATION OF PROMOTIONS.** On average, what is the current level of collaboration between your counterparts (Supplier or Retailer) ?
  22. **PROMOTION RESULTS.** In your experience, what is the difference in results of promotions done "in collaboration" versus promotions developed "normally"?
  23. **FORWARD BUYING.** Purchases in addition to the ones that are negotiated with a Supplier under the terms of a given promotion/event. They do not include purchases designed to capture both price and availability opportunities otherwise unrepeatable
    - 23/A *Forward Buying Activity.* Describe your situation
    - 23/B *Quantity.* We estimate that for grocery products, the quantity of stock at the Retailer bought in forward buying is about 1/4 of the total stock. What do you think of this estimate?

- 
24. **SPECIAL PACK.** In your experience, on average what is the impact of running special pack promotions (bundle pack, gifts on pack) on Supplier and Retailer costs.
25. **COUPONS.** In your experience, what is the situation between Suppliers and Retailers regarding couponing?
26. **PLANS THROUGH 1996.** What plans do you have to improve collaboration with your key counterparts in the area of planning and implementing promotions?
27. **NEW PRODUCTS.** In your estimate, what is the level of innovation of all product launched in a average year?  
 27/A Estimate of annual sales of new products on total sales  
 27/B Split of sales of new products among levels of innovation:  
 – real innovations  
 – “me too” brands  
 – minor improvement of existing brands
28. **COLLABORATION IN THE DEVELOPMENT OF NEW PRODUCTS.** Please indicate how often Suppliers and Retailers collaborate today in product development and your estimate of the impact on the success of product development.
29. **COLLABORATION IN NEW PRODUCT LAUNCHES.** Please indicate how often Suppliers and Retailers collaborate on product launches and what would be the impact on the success of a launch.
30. **LISTING OF NEW PRODUCTS.** What do you pay (or charge) for listing a new product?
31. **OBSTACLES TO COLLABORATION.** What are the key factors inhibiting collaboration in product development?
32. **PRODUCTION OF PRIVATE LABELS.**  
 32/A *Current situation.* Do you produce private labels for one or more Retailers?  
 32/B *Margins on private labels brands.* If the unit gross operating margin on your own brands is 100, how much is/will be your gross operating margin on the private label you produce?  
 32/C *Benefits from producing private labels.* Do you think Suppliers that are also private label producers have a competitive advantage because they have more “control” over the Retailer ?  
 32/D *Disadvantages:* what disadvantages do you believe may come from producing private labels?
33. **PLANS THROUGH 1996.** What is your attitude towards collaboration projects with your counterparts in the area of product development and product launches?  
 33/A 1. With respect to new products, with how many Retailer do you/will you have collaboration projects ?  
 2. What criteria do you/will you use to select your collaboration partners?  
 33/B 1. In how many categories do you/will you have collaboration projects?  
 2. What criteria do you/will use to select these categories?  
 3. What criteria do you/will you use to select your collaboration partners?
34. **ESTIMATES OF BENEFITS FROM COLLABORATION IN THE AREA OF MARKETING.** Based on our study, we estimate that greater collaboration in marketing can generate the following benefits. Results are expressed in terms of consumer retail price.  
*What do you think of these estimates?*
35. **CONCENTRATION OF CLIENTS/SUPPLIERS.** How great is the concentration of your clients (or Suppliers) in terms of sales (or purchases)?

- 
36. **COLLABORATION PROJECTS.** With respect to collaboration with Suppliers (or Retailers) as defined in the introduction of this questionnaire.
- 36/A *Current Situation.* What is the current status of projects in progress or under consideration in your company?
- 36/B *Motivation for collaboration.* What motivated your company to begin to implement collaboration projects?
- 36/C *Profile of partners and products.* What are the characteristics of the partners and products with whom you are doing the projects listed above?
- 36/D *Future Estimates.* What is your estimate of how many collaboration projects will be done in your company in the future?
37. **DIFFERENTIATION OF FORMATS**
- 37/A Does this differentiation in store formats exist in your Country?
- 37/B Does greater differentiation make collaboration easier?
38. **DEVELOPMENT OF DISCOUNTERS.** The development of discounters might force Retailers to focus on reducing costs, causing them to change their attitude towards collaboration with Suppliers.
- 38/A Which impact will discounters have in your country over the next five years?
- 38/B In case of medium/relevant impact, do you believe that a greater availability from Distributors towards collaboration will occur?
39. **DOMINANCE OF THE RETAILER.** When a Retailer has a strong consumer franchise (because it offers competitive prices but has also a strong private label brand and spends a lot in advertising) this makes collaboration easier. Based on your experience, do you agree with this?
40. **CHANGES IN SUPPLIER COST STRUCTURE.** In the last ten years Suppliers have been successful at reducing the cost of goods. However, these savings have been offset by increases in advertising, selling and distribution costs. The objective of collaboration is to improve efficiency in these areas. Based on your experience, do you agree with this?
41. **DOMINANCE OF THE SUPPLIER.** When there is a clear market leader in a category, with a high Dominance Index this creates stability which makes collaboration easier. Based on your experience, do you agree with this?
42. **CONDITIONS FOR THE DEVELOPMENT OF COLLABORATION.** In summary, what are the most important factors or conditions for the development and stability of collaboration?
43. **EXCHANGE OF INFORMATION VIA EDI.** IT and the electronic exchange and processing of data is key for collaboration which requires intense and frequent exchange of accurate data. What do you think are the most important factors for the development of EDI in your market?
44. **ORGANISATIONAL STRUCTURE.** This seems to have a significant and direct impact on collaboration. In your opinion, which of the following organisational variables are most important?
45. **ORGANISATIONAL STRUCTURE OF RETAILERS.** It is easier to implement collaboration projects with Retailers that are centralised and have few decision making points. Based on your experience, do you agree with this?
46. **REDUCTION OF PERSONNEL.** Collaboration can result in a substantial reduction in personnel in the sales and buying department (30-50%). The remaining functional experts would be re-trained to become multifunctional experts. Do you agree with this estimate?

### **APPENDIX 3:**

#### ***DETAILS ABOUT FIGURES USED FOR SRC IN OPERATIONS***

The following tables give further analytical evidence of the figures used in chapter 3 to describe the status quo of supply chain management.

**Table A 3.1.**

Presents a synopsis of analytical estimates of benefits for each of the actions in EOS.

**Table A 3.2.**

Shows the typical present percentage of flow of different goods through RDC's in major European countries.

**Table A 3.3.**

Shows the typical present level of stocks along the supply chain in major countries

**Table A 3.4.**

Shows the typical present logistic costs as a percentage of turnover at retail price for both suppliers and retailers in major countries (flow through RDC's only).

**Table A 3.5.**

Presents typical gross margins for retailers in major countries, by groups of products and the overall weighted average.

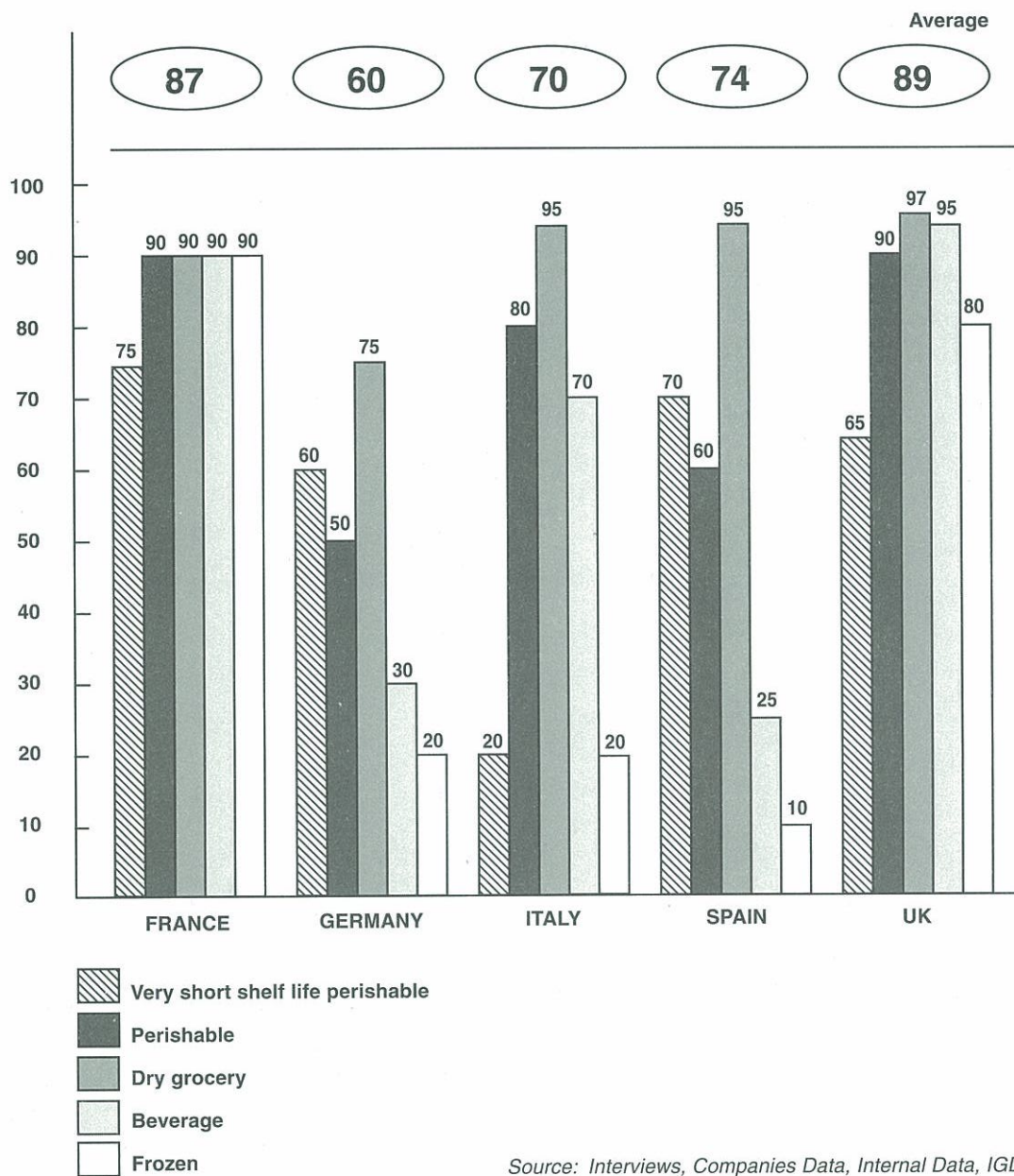


### A 3.1. EOS – Evaluation of Benefits

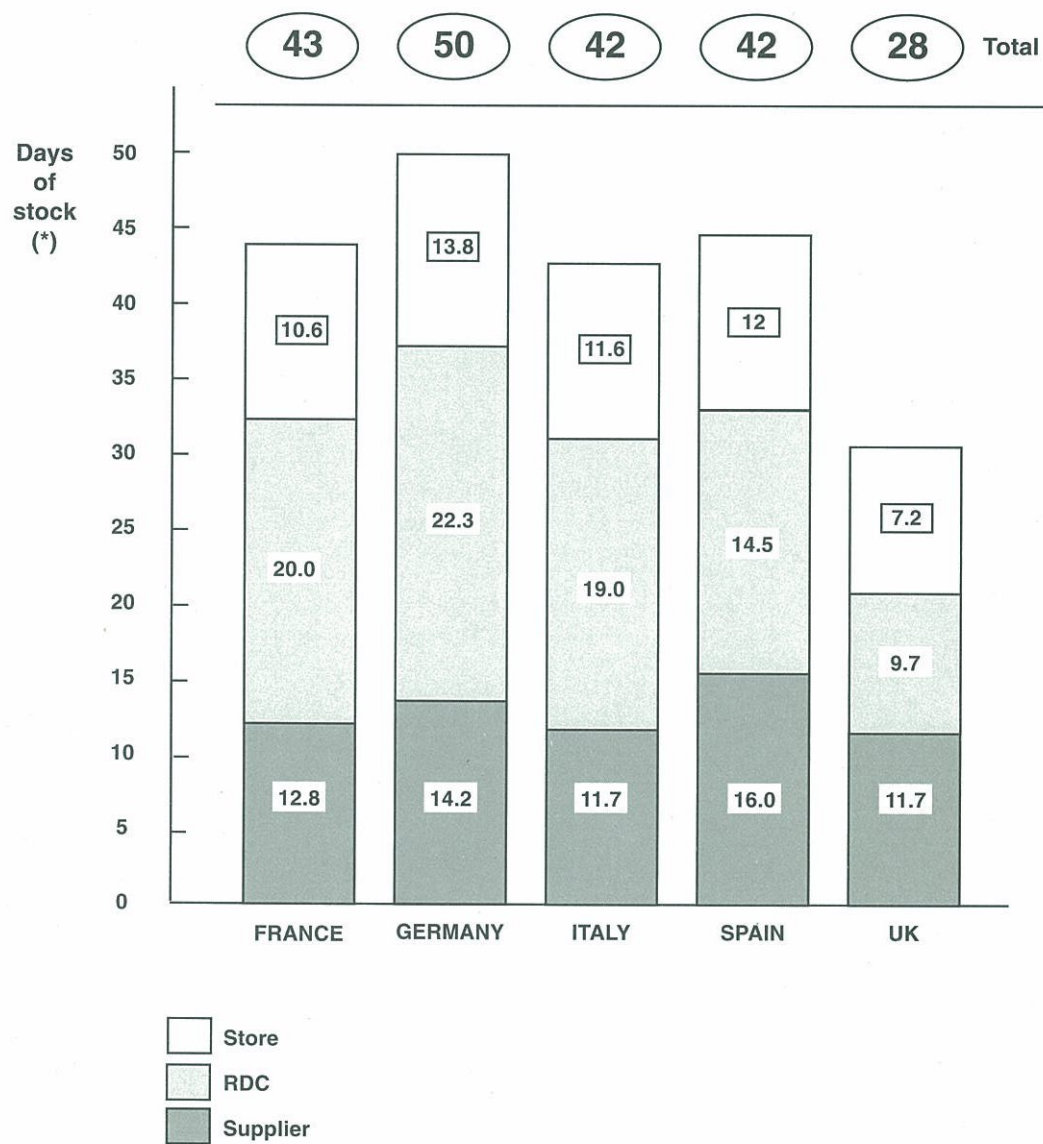
ACTIONS	BENEFITS	SAVINGS (*)			
		Normal situation (Ita/Ger/Spa)		Enhanced situation (Fra/UK)	
		Supplier	Retailer	Supplier	Retailer
EDI ORDERS	Order entry costs reduction	0.05 ÷ 0.1	–	0.05	–
CASES AND PALLET BAR-CODE	More efficient control of invoices and receiving (activities can be reduced by 5-10% in the Supplier central warehouse, by 15-20% in the RDC and by 10% in the store)	0.2 ÷ 0.25	0.1 ÷ 0.4	0.1 ÷ 0.4	0.15 ÷ 0.2
CROSS DOCKING ACTIVITIES	Less handling cost in the RDC	(0.2) ÷ 0	0.3 ÷ 0.4	(0.1) ÷ 0	0.1 ÷ 0.2
ADVANCE SHIPPING NOTE TRANSMISSION	Better scheduling of RDC receiving activities Less truck's waiting time and transport costs	0.2 ÷ 0.3	0.1 ÷ 0.2	0.1 ÷ 0.15	0.05 ÷ 0.1
E.P.O.S. AND C.A.O. ADOPTION	<ul style="list-style-type: none"> <li>– Less order issuing activities in the store</li> <li>– Better stock control and reduction of POS and RDC stock</li> <li>– Better demand forecast, lower stock out</li> </ul>	–	0.3 ÷ 0.4	–	0.05 ÷ 0.1
TOTAL		0.25 ÷ 0.65	1.0 ÷ 1.4	0.15 ÷ 0.25	0.35 ÷ 0.6
OVERALL ANALYTICAL EVALUATION		1.25 ÷ 2.05		0.5 ÷ 0.85	
REALISTIC INDUSTRY EXPECTATION		1.2 ÷ 1.4		0.5 ÷ 0.7	

Note (\*): % of sales at retail price Source: GEA

**A 3.2. Percentage of products' flow through RDC**



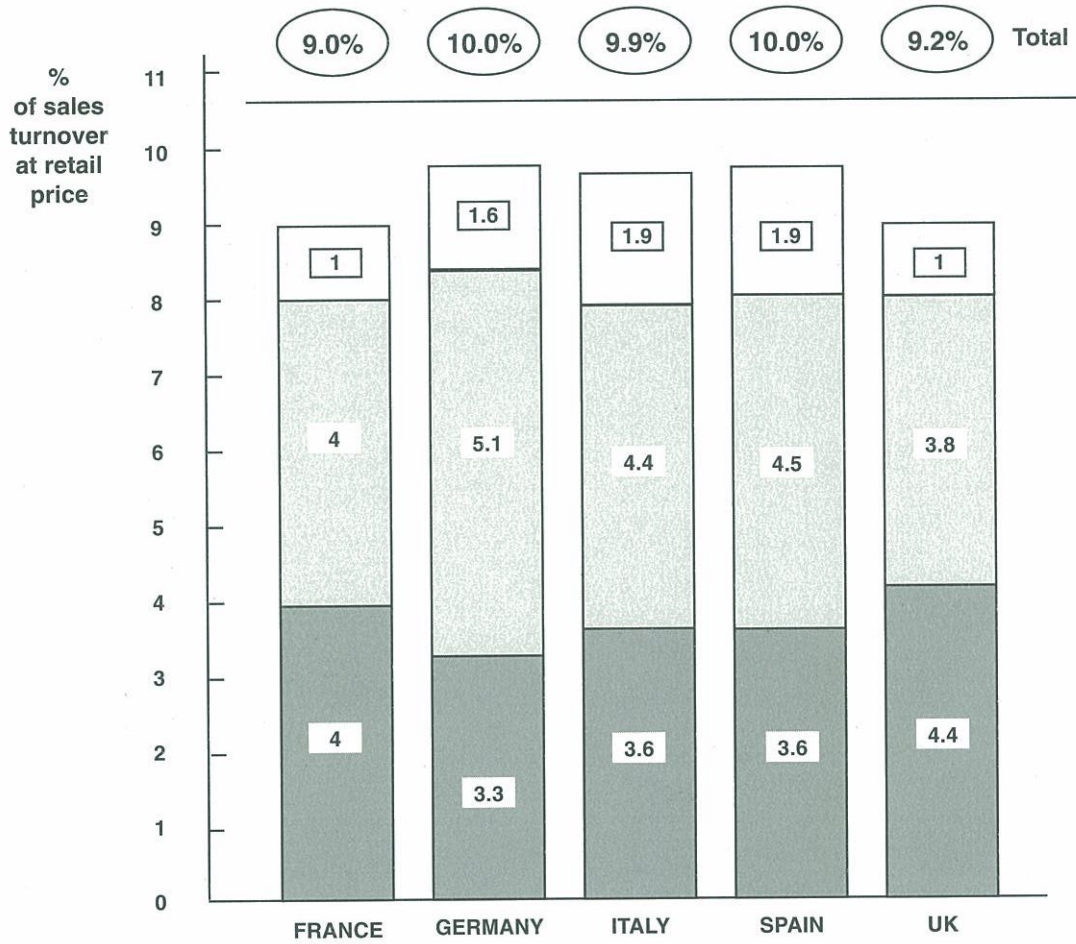
### A 3.3. Stock in the supply chain (flow through RDC)



Note (\*): Weighted averages for all goods

Source: H.D. Database, Interviews, Internal Data

**A 3.4. Total logistic cost: flow through RDC (\*)**

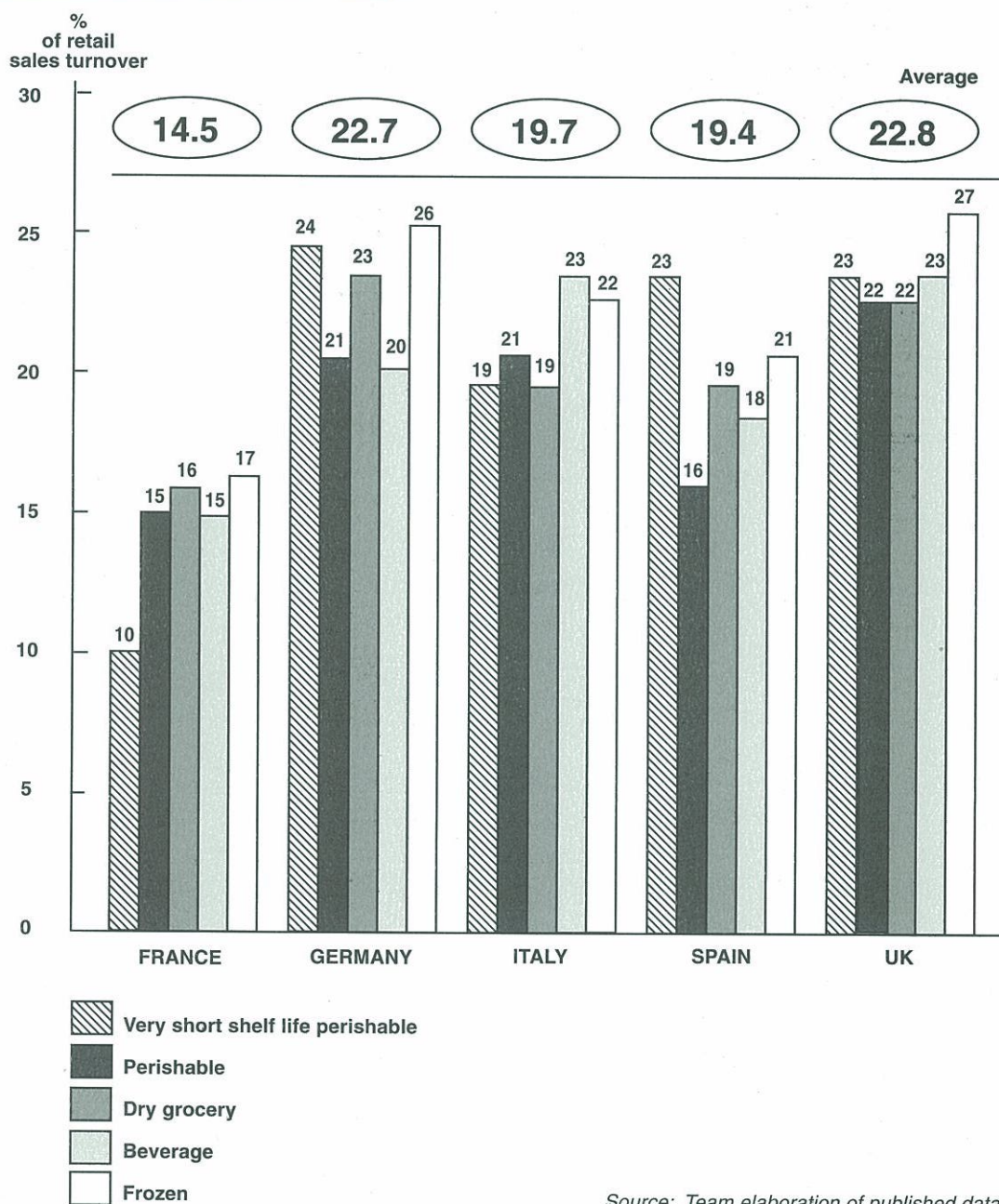


(\*) Including transport, warehousing, stock administration

- Store
- RDC
- Supplier

Source: GEA analysis based on H.D. Database

### A 3.5. Retailers' gross margin



## *APPENDIX 4:*

### *ABBREVIATIONS*

This is the list of abbreviations used in the report.

Abbreviation	Meaning
A.S.N.	Advanced Shipping Note
C.A.O.	Computer Assisted Ordering
C.E.O.	Chief Executive Officer
C.M.	Category Management
D.S.D.	Direct Store Delivery
E.A.	Efficient Administration
E.C.R.	Efficient Consumer Response
E.D.I.	Electronic Data Interchange
E.D.P.	Electronic Data Processing
E.O.S.	Efficient Operating Standards
E.P.	Efficient Promotion
E.P.D.	Efficient Product Development
E.P.o.S.	Electronic Point of Sale
E.R.	Efficient Replenishment
E.S.A.	Efficient Store Assortment
F.B.	Forward Buying
F.T.L.	Full Truck Load
I.O.S.	Inter Organisational Systems
I.T.	Information Technology
L.T.L.	Less than Truck Load
M.B.O.	Management by Objectives
M.I.S.	Management Information Systems
R.D.C.	Regional Distribution Centre
S.B.U.	Strategic Business Unit
S.R.C.	Supplier Retailer Collaboration