Perspective

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Shelf-Centered Collaboration
From Ad Hoc To Enterprise-Wide

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EXECUTIVE SUMMARY

The end of mass consumer markets has led to increasing complexity both in the supply chain and in merchandising. For consumer packaged goods companies and retailers, one way to more effectively manage that complexity is through increased collaboration. "Shelf-centered collaboration," in which CPG manufacturers and retailers develop infrastructure that is more responsive to consumers' needs and more efficient for all, is one approach that is gaining favor. European manufacturers and retailers have recently stepped up their commitment to collaboration, according to a Booz & Company survey. The main barriers to increased collaboration are an absence of clear rules of engagement and lack of trust. For example, both sides fear the transparency that comes with greater sharing of point-of-sale data and marketing research. To get beyond the impasse, supply chain partners need to be more pragmatic, align expectations, get senior management buy-in, and pursue collaboration programmatically. By building on early successes, managers can propagate good news about collaboration throughout their enterprises, thus establishing it as a common way of doing business.

GROWING COMPLEXITY DEMANDS MORE COLLABORATION

Life used to be simpler for consumer goods companies. In days gone by, makers of cosmetics, food, or cleaning products could build large brands, market them to mass audiences, and watch boxes fly off the shelves. The decades after World War II, in particular, were a boom period when disposable incomes rose rapidly and economic growth ensured steady demand for good-quality products at reasonable prices.

No longer. Over the past 20 years, every aspect of consumer packaged goods manufacturing and retailing has fundamentally changed. It is no longer enough for CPG makers to develop decent products to meet unmet demands. Consumer expectations have grown exponentially. Customers of all ages and both genders are now well informed, demanding, and highly differentiated. They expect the right product, at the right time, at the right price. Developed markets in Europe, the U.S., and elsewhere are slow-growth and exacting. CPG companies must work harder to satisfy consumers who are, to an extent, already satisfied, perhaps even overly so.

The response of manufacturers has been to step up the rate of innovation and introduce an ever-widening array of products and product combinations. They concentrate on items with higher margins, such as those that fulfill more than one need (e.g., vitamin-enriched drinks) or include functional or specialized packaging (e.g., aseptic PET bottling). Meanwhile, retailers have looked to participate in more areas of the value chain, with either their own private-label lines or items they have exclusively customized.

Such strategies have allowed manufacturers and retailers to stay ahead of the game and meet the challenges of a more exacting, complicated marketplace. But they have come at the cost of increased complexity. On the fulfillment side, forecasting and lead-time management have never been more difficult, while merchandising is both expensive (relative to sales) and more hit-or-miss. Frequently, marketers are unable to say whether promotions are working or not; our research suggests that more than 50 percent of promotions have a negative return on investment.

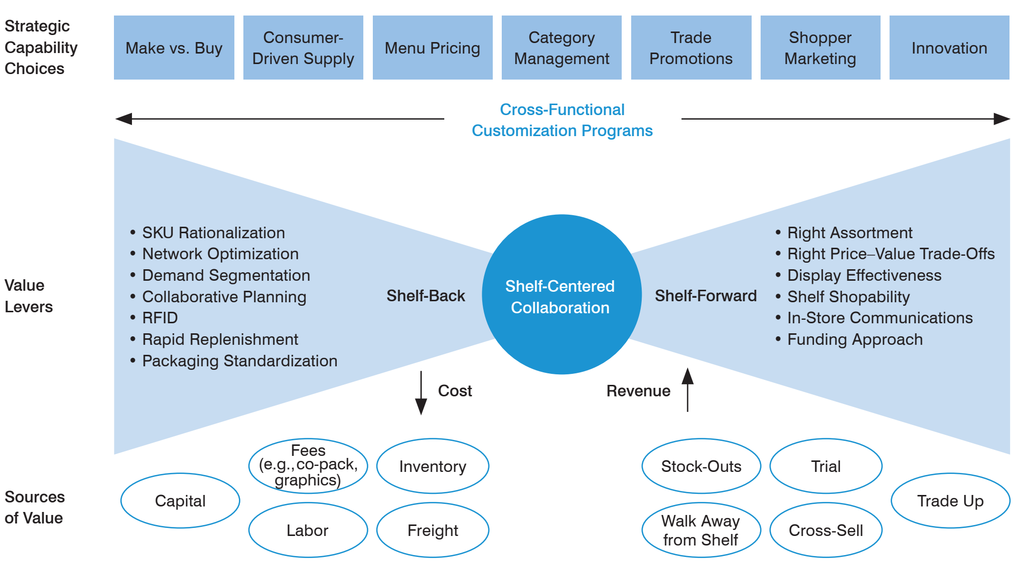
In the supply chain, in particular, the balance between complexity and operational effectiveness in today's consumer marketplaces is becoming ever harder to strike. Given this, CPG companies need to consider new approaches, including those aimed at improving collaboration with retailers. As time goes on, there is a greater need for actors in the supply chain to work together—to collaborate effectively—for the benefit of all. Shelf-centered collaboration is one such approach that is gaining traction. A recent Booz & Company survey reveals the struggles and opportunities that both manufacturers and retailers face as they pursue shelf-centered collaboration.

SHELF-CENTERED COLLABORATION

Collaboration becomes a critical lever if CPG companies are to fix intractable problems in the supply chain and improve merchandising effectiveness. Booz & Company's concept of shelf-centered collaboration involves manufacturers and retailers working together selectively to build an infrastructure that is more responsive to customer needs and more efficient for all parties. It involves (1) new types of managerial and technological links between organizations, (2) an end to the characteristic zero-sum game of manufacturer–retailer negotiations, where one's side gain is the other's loss, and (3) a deeper focus on point-of-sale data that moves beyond emphasizing aggregated sales and considers a more granular understanding of patterns per item, per hour, and per store.

Such an approach concentrates the effort, as the name suggests, on the shelf—on the moment of truth when a consumer chooses a product. It includes shelf-forward strategies that focus on customized products, store displays, and variable shelf mixes (based on, say, the part of the week), while also taking into account the weather, the store location, and the specific makeup of customers. It also includes shelf-back initiatives that give retailers and manufacturers the flexibility to respond with real-time adjustments in the supply chain with, for instance, customized pallet mixes, rapid replenishment, and unique routes to market *(see Exhibit 1)*.

Exhibit 1
Shared Value through Shelf-Centered Collaboration



Source: Booz & Company

FIVE KEY TRENDS IN EUROPE

The idea of such collaboration is not new. Retailers and manufacturers have been talking about the possibilities of working together more closely for years through initiatives such as efficient consumer response (ECR) in the European grocery supply chain. But collaborative efforts have thus far failed to deliver the types of benefits—particularly in terms of yielding consumer insight—that today's point-of-sale data theoretically supports.

So how might retailers and manufacturers move from the halfhearted collaborative efforts of the past to something truly beneficial for all involved? To help answer that question, Booz & Company commissioned an in-depth survey of 100 manufacturers and retailers across 15 countries. Our shelf-centered collaboration study reveals five key trends defining the state of manufacturer–retailer collaboration in Europe:

- European organizations have stepped up their commitment to collaboration.
- Shelf-forward collaborative efforts are more prevalent.
- Despite commitment to collaboration, overall satisfaction with results remains low; however, retailers are generally more satisfied than manufacturers.
- Collaborative efforts are still primarily ad hoc rather than programmatic.
- Lack of trust and transparency are the main barriers to establishing successful collaborative programs.

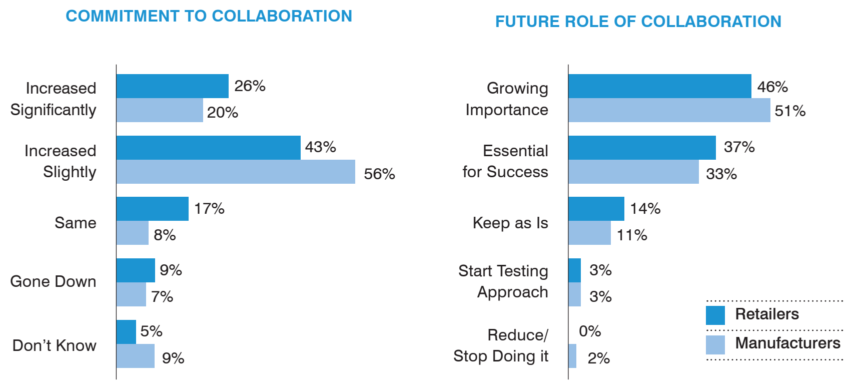
Trend 1: Stepped-Up Commitment

European organizations have stepped up their commitment to collaboration, and they increasingly see collaborative initiatives as an important way to drive future benefits. Eighty percent of manufacturers and retailers are collaborating to address common business challenges. Seventy-six percent of manufacturers and 67 percent of retailers said their commitment to collaboration has increased significantly or slightly over the past three years, while 51 and 46 percent, respectively, expect collaborative efforts to grow in importance in the future *(see Exhibit 2)*.

Additionally, well over half of respondents view collaboration as key both to their supply chain efforts and to various marketing efforts including consumer insights, trade promotions, and category management *(see Exhibit 3)*.

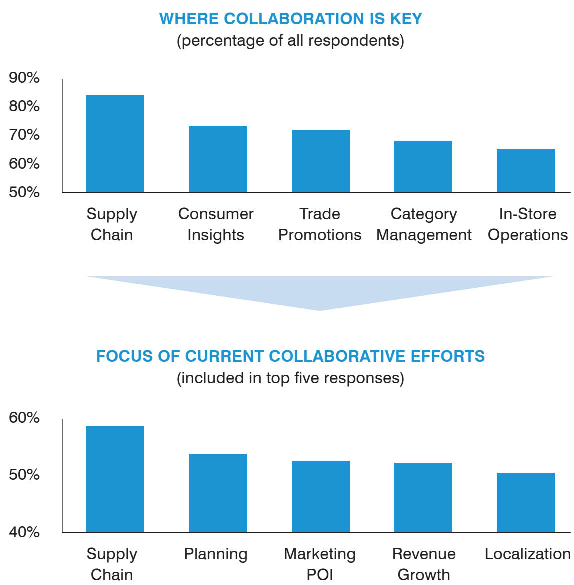
To some extent, the level and type of collaboration depends on the industry. Food and beverage manufacturers and retailers are collaborating more on shelf-forward initiatives such as business planning and category management, product customization, product launches, and trade promotions. By contrast, the office supply and household appliances industries are more active in shelf-back areas such as customized pallets and inventory management. For example, four-fifths of respondents from the office supply segment say they are currently collaborating on customized pallets, compared with only 36 percent of respondents in the health and beauty arena.

Exhibit 2
A Growing Commitment to Collaboration



Note: Results are from respondents who are currently collaborating.
Source: Booz & Company Shelf-Centered Collaboration Survey, April 2008

Exhibit 3
Collaboration Is Key to Supply Chain and Marketing Efforts



Source: Booz & Company Shelf-Centered Collaboration Survey, April 2008

Why? Because nonfood retailers in office supply, household appliances, and consumer electronics see the greatest need to improve their supply chain and procurement activities. With "permanent assortments" of products, and year-round continuous replenishment, food and beverage retailers tend to have more optimized supply chains. By contrast, categories such as household goods and consumer electronics tend to develop "seasonal assortments" and have products that are continually evolving, which means they are more exposed to the risk of obsolescence.

Trend 2: Shelf-Forward Initiatives Are More Prevalent
Our findings reveal that shelf-forward initiatives are more prevalent than shelf-back projects—with category management, product customization, new product development (NPD) and launches, and promotion planning and execution among the most popular applications. Well over half of retailers and manufacturers said they had at least one initiative in each of these categories *(see Exhibit 4)*.

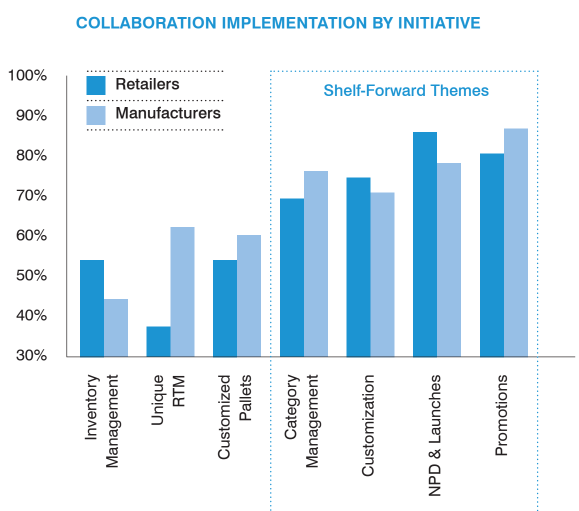
By contrast, inventory management, customized pallets, and unique routes to market (RTMs) were somewhat less popular across the board. Shelf-forward initiatives may be more common because they are likely to involve a more straightforward quid pro quo, in which, for instance, manufacturers supply consumer insights and retailers provide expertise and feedback in trade promotions management. Compared with shelf-back initiatives, they are also simpler to execute, more likely to produce benefits that are immediately visible, and harder for any party to dispute.

On the other hand, shelf-back initiatives were seen on both sides as offering the greatest long-term potential. Fully 83 percent of retailers and manufacturers said collaboration was important or very important for enhancing supply chain efficiency. And respondents said the supply chain was the most likely area for their future collaborative efforts.

Trend 3: Mixed Levels of Satisfaction
Although retailers and manufacturers show enthusiasm for collaboration in the abstract, there was a level of dissatisfaction with previous projects. This was particularly evident concerning shelf-back initiatives. For example, 35 percent of retailers were somewhat or very dissatisfied with customized pallet attempts, while 32 percent were dissatisfied with inventory management *(see Exhibit 5)*.

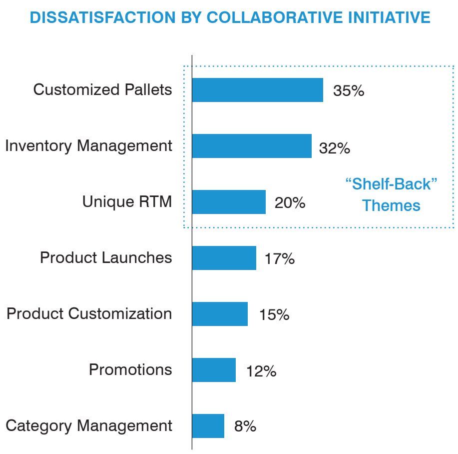
Retailers were more satisfied than manufacturers across most areas of collaboration *(see Exhibit 6)*. For example, 38 percent of retailers declared themselves very satisfied with collaboration on promotions, compared with only 14 percent of manufacturers. Similarly, 30 percent of retailers were very satisfied with collaborative product launches, compared with 18 percent of manufacturers.

Exhibit 4
Collaboration Implementation



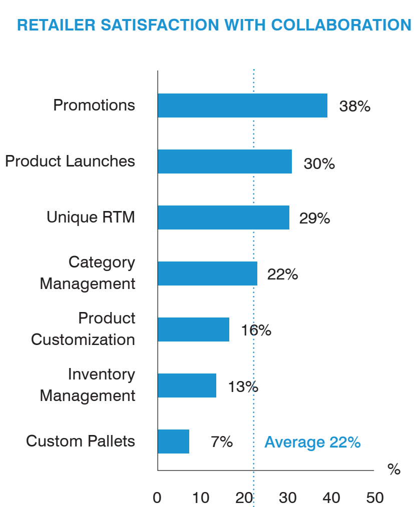
Note: Results are from all respondents.
Source: Booz & Company Shelf-Centered Collaboration Survey, April 2008

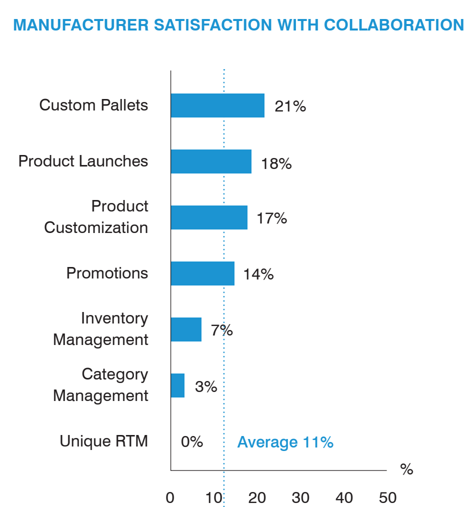
Exhibit 5
Collaboration Dissatisfaction Levels



Note: Results are from respondents currently collaborating who are either dissatisfied or very dissatisfied.
Source: Booz & Company Shelf-Centered Collaboration Survey, April 2008

Exhibit 6
Collaboration Satisfaction Levels





Note: Results are from respondents currently collaborating who are very satisfied.
Source: Booz & Company Shelf-Centered Collaboration Survey, April 2008

Why are manufacturers generally less satisfied than retailers? One explanation is that manufacturers tend to put more effort, time, and resources into collaboration, so they expect more in return. In exchange for producing customized labeling, packaging, or product sizes, they may expect increased sales, improved margins, or deeper customer insights. Retailers, on the other hand, are more likely to be the recipients of customization, and tend to devote less effort to it. Accordingly, they are less likely to be disappointed if projects fail to produce everything they wanted. In fact, given their relatively small investment in time or resources, they may be satisfied with a minimal return.

The expectation gap is more evident in some industries than in others. In the clothing and accessories industry, 60 percent of manufacturers say collaboration will be essential to drive future benefits, compared with only 30 percent of retailers. In office supplies, the split is even wider: 100 percent of manufacturers say collaboration will be important, versus just 25 percent of retailers.

Differing levels of satisfaction, and expectation, around collaboration are a key finding of the survey, as they indicate why companies have thus far been reluctant to more fully engage in it. Before moving to the next stage of collaborative efforts, manufacturers and retailers must better align their expectations for success for each initiative. Absent that alignment, manufacturers, in particular, are likely to continue perceiving collaboration as unequal.

Trend 4: Collaboration Is Still Ad Hoc
Despite general enthusiasm for collaboration, the survey also revealed that many projects are conceived on an ad hoc basis, often as the result of a negotiation between a manufacturer's brand manager and a retailer's category manager, rather than as part of an enterprise-wide strategy. And they are more likely to be "customization" projects (e.g., tweaks to a product's labeling or size) than truly joint programs that entail sharing data or systems. Overall, only 32 percent of collaborative initiatives undertaken by survey respondents are programmatic *(see Exhibit 7)*.

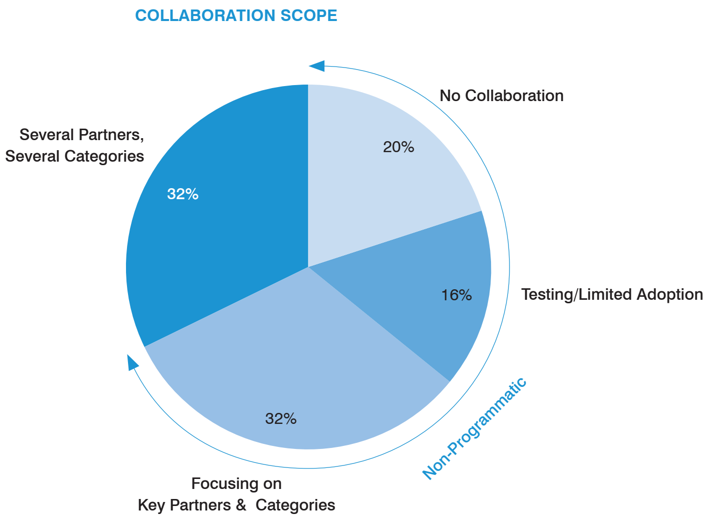
The survey findings also reveal that many organizations are limiting their range of potential collaboration partners to those they consider most important. While 57 percent of retailers said they had entered into collaborative projects with the "most important partners in key categories" or with several partners in several categories, 26 percent said they were not collaborating at all. On the manufacturer side, 70 percent were collaborating with their most important partners in key categories, or with several partners in several categories, while 15 percent were not collaborating at all.

Trend 5: Lack of Trust and Transparency
Manufacturers are keener than retailers on collaboration and are willing to collaborate more deeply by, for instance, sharing marketing research insights, consumer trends, and other consumer-related data. Retailers, on the other hand, are more likely to want to withhold customer information (e.g., point-of-sale data), believing that this is what separates them from their competition. "Unwillingness to share data" was the barrier most often cited by retailers (66 percent) when asked what was holding them back from greater collaboration. Far fewer manufacturers (44 percent) cited this as a key barrier *(see Exhibit 8)*.

Over half of manufacturers view complexity as a key barrier to collaboration. Among retailers, 37 percent shy away from collaboration because they fear adding more complexity to already complex supply chains. The prospect of reorganizing supply systems for only a modest return, and at the risk of privileging one supplier over another, causes retailers to think twice about whether collaborating with manufacturers is worth the additional effort. Retailers face a choice: Work more closely with manufacturers to innovate around existing product offerings or add even more SKUs to already lengthy product rosters.

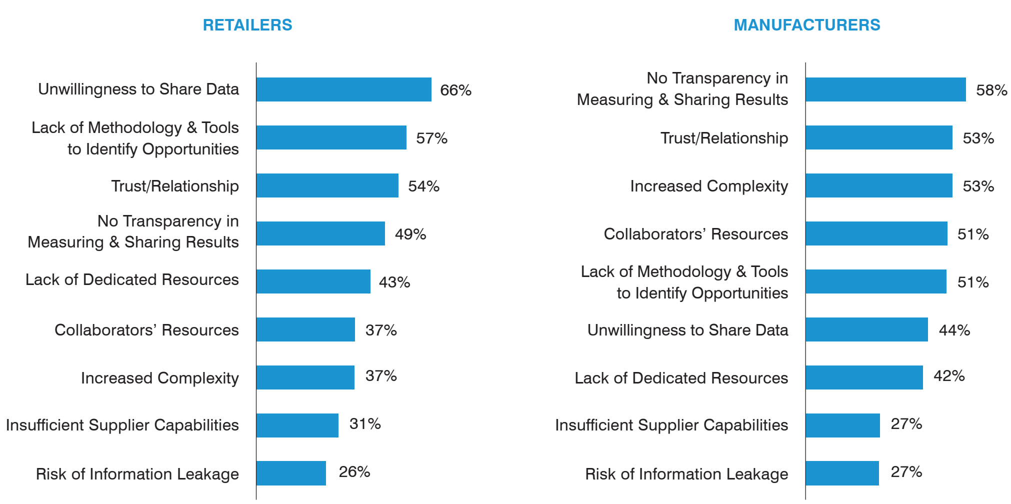
Most fundamentally, the survey reveals that trust remains a key barrier for both retailers and manufacturers. Manufacturers, whose margins have been progressively squeezed by retailers over the past few years, remain somewhat wary: 58 percent of manufacturers cite "no transparency in measuring and sharing results" as a key barrier. Forty-nine percent of retailers share that concern. The lack of agreement about the rules for collaboration poses another barrier. Both manufacturers and retailers cited "lack of methodology and tools to identify opportunities" as an important issue.

Exhibit 7
Programmatic vs. Non-Programmatic Initiatives



Source: Booz & Company Shelf-Centered Collaboration Survey, April 2008

Exhibit 8
Key Barriers to Successful Collaboration



Note: Results are from respondents who are currently collaborating.
Source: Booz & Company Shelf-Centered Collaboration Survey, April 2008

GETTING BEYOND THE IMPASSE

For packaged goods suppliers and retailers, the key question for the future is how to advance to the next stage of collaboration—from ad hoc projects to programs that are part of the institutional fabric of their organizations. To make that leap, both sides will need to develop common organizational architectures, and work through some of their current reservations about data access, results measurability, and, most fundamentally, trust. Until manufacturers and retailers truly feel comfortable that collaboration isn't a strategic ploy from the other side, they will never move beyond current initiatives to true collaboration of partners that share teams, resources, data, and systems.

With this in mind, we advise the following:

1. Be pragmatic. To get the ball rolling, manufacturers and retailers should target quick wins that demonstrate the benefits of collaboration to their wider enterprises. Even successful collaborative projects often fail to get the visibility and recognition they deserve because they occur at the brand or category level. "Launch-and-learn" initiatives—perhaps involving a single category in a few stores, rather than full programs that entail, say, complex profiling exercises—are a good place to start.

2. Align expectations. The survey revealed that manufacturers and retailers have very different expectations about collaborative projects. Aligning expectations is crucial. All parties should have a mutual understanding of the program's goals and expected benefits, and what resources will be required. The agreement should also outline any "no go" areas—sensitive information about margins or specific customer data, for instance—that either party wishes to exclude from the arrangement.

3. Get the right people involved. Senior management buy-in is essential to supporting any complex, intraorganizational trade-offs (e.g., balancing SKU assortments with warehouse efficiency) in the collaborative exercise. To be successful, the collaborative initiative will need a champion who can look beyond the silos—without creating new layers of management—and communicate effectively to garner support across functions. Without top-down leadership, collaboration will be driven by brand and category managers, whose immediate priorities and objectives may not support the enterprise's overarching goals for collaboration.

4. Separate from day-to-day activities. Collaboration is often embedded in the relationship between category manager and brand manager, each of whom is naturally preoccupied with price negotiations, tactical battles, and solving various problems. Collaboration should be placed on a longer-term timetable that looks beyond immediate operational or commercial issues. Short-term wins may include increased sales, improved

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Methodology

Booz & Company surveyed more than 100 managers in February and March 2008 across a variety of functions—supply chain, sales, brand management, marketing—at consumer packaged goods retailers and manufacturers in 15 western European countries. The anonymous interviews were conducted by third-party research company Ipsos MORI. Represented industries included clothing and accessories, electronics, food and drink, furniture and do-it-yourself, health and beauty, office supplies, and others. Responses were analyzed to understand the current state of collaboration, future focus and challenges, and the similarities and differences between manufacturers and retailers and across industries.

margins, and better in-stock performance. But these benefits pale when compared with the longer-term potential of a happy manufacturer–retailer partnership. Focusing on the possibilities to improve differentiation and customer insights will help the new relationship through its early days.

5. *Pursue systematically.* Once collaborative strategies prove successful, manufacturers and retailers should look to see how they can extend the benefits to other areas of the business—in different stores, across different categories, and in different markets. Only when collaboration is pursued systematically will it become part and parcel of the way manufacturers and retailers do business.

None of this will be easy. There are good reasons that collaboration between manufacturers and retailers has not occurred more widely before now. Only by working step-by-step—one category at a time, one level of the organization at a time—will collaboration eventually become more systematic. Once that happens, however, collaboration may not be so much hard work as second nature.

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