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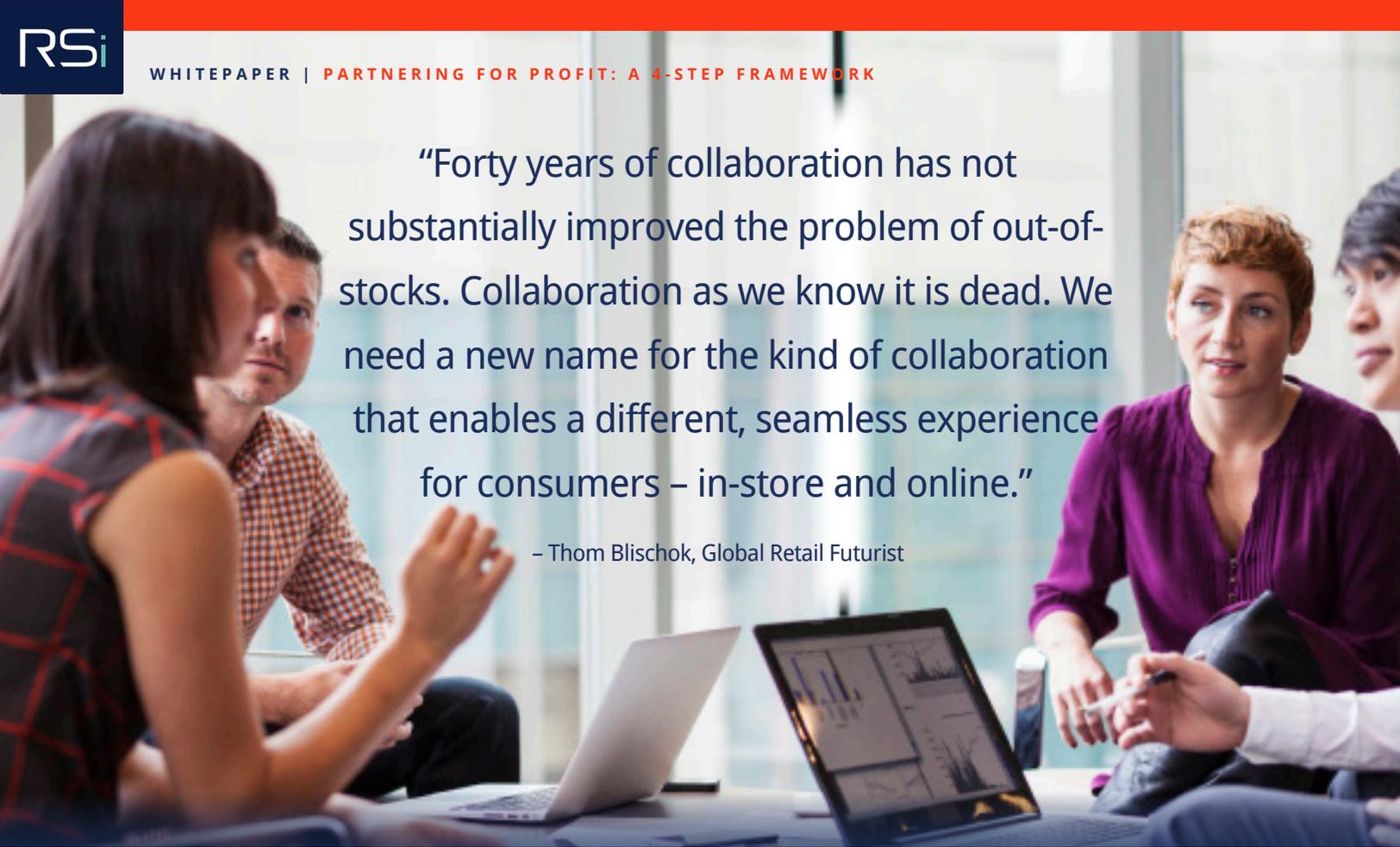
Partnering for Profit: A 4-Step Framework



Executing Profitable Partnerships Between CPG Manufacturers and Retailers

EXECUTIVE SUMMARY

In an omnichannel world, shoppers are less reliant on traditional stores and delivery channels, and increasingly swayed by price, convenience, availability, service, and experience. As e-commerce giants continue their formidable push into bricks-and-mortar retail, CPG manufacturers and retailers must come together in new collaborative partnerships that optimize their combined capabilities to meet ever-expanding consumer demands. Most views on such partnerships emphasize top-down strategies that start with vision, leadership or culture while overlooking the urgent and practical problems CPG manufacturers and retailers actually face. The 4 step-framework described in this paper outlines how powerful, profitable partnerships grow by solving tactical and practical problems first as the foundation for more integrated collaboration later. In the process, partners stem revenue losses, grow profitability, establish a new “journey to purchase” for consumers, and discover the innovations that will help them rule in a hyper-competitive marketplace.



“Forty years of collaboration has not substantially improved the problem of out-of-stocks. Collaboration as we know it is dead. We need a new name for the kind of collaboration that enables a different, seamless experience for consumers – in-store and online.”

– Thom Blischok, Global Retail Futurist

In the dynamic, topsy-turvy world of retail today, the individual consumer has more power than the mightiest retail store or global CPG manufacturer.

Those consumers show less and less loyalty to particular stores or delivery channels. They expect total price transparency, any-time access, constant availability, immediate delivery, and great service and experience. CPG manufacturers and retailers ignore these expectations at their peril.

In the competition for the new consumer loyalty, e-commerce giants are all too frequently leading, if not controlling, the game. Amazon already accounts for 37.7% of e-commerce retailing in the US.¹ Meanwhile, Amazon’s two-pronged foray into bricks-and-mortar retail and Amazon-branded products threaten traditional retailers and CPG manufacturers alike. Other digital competitors worldwide, like Alibaba, are following Amazon’s formula. In the new value proposition, convenience, experience, and value are beating location and traditional brand relationships.

What can CPG manufacturers and retailers do to not only stave off this existential threat but grow, profit and rule?

If the future belongs to seamlessly integrated systems, then both sides of the traditional retail delivery channel must build a new kind of alliance that fortifies their own competitive positions while meeting ever-expanding consumer demands.

In many traditional manufacturer-retailer partnerships, one partner wins more while another loses more. The new fight is not for a larger slice of an ever-shrinking pie. Instead, it’s about a true win-win collaboration that makes the pie bigger by reducing overall costs and meeting an expanding array of consumer needs more productively and profitably. As Global Retail Futurist Thom Blischok notes, “Ultimately, these powerful partnerships will reduce reasons why shoppers can’t or won’t buy, and empower reasons why they can and will buy.”

1. <https://www.bloomberg.com/news/articles/2019-06-13/emarketer-cuts-estimate-of-amazon-s-u-s-online-market>

“Manufacturers and suppliers each have their own agenda. Too often, they point to the other partner as the source of the problem. They need a common agenda and optimal performance to survive in the age of Amazon. That starts with a demand/pull approach that drives material improvement in on-shelf availability, major enhancements in consumer experience, and substantial growth in profitability.”

– Bert Clement, CEO, Retail Solutions, Inc. (RSi)

It's time for a new, more practical approach to building such partnerships. To build these partnerships, CPGs and retailers have been steered toward solving high-end strategic challenges first, leaving tactical or operational barriers for the businesses to figure out later. We believe the urgent needs of CPG manufacturers and retailers require the prioritization of the real-world operational steps that must be undertaken first to advance these powerful, profitable partnerships. Better to leave the strategic plans in the ivory towers.

The critical priority is to implement concrete, collaborative solutions that stem revenue losses and establish a new and improved “journey to purchase” for consumers. Over time, that work builds more trust and positive action between the partners, leading to deeper intergradation, enhanced innovation and a shared strategic vision grounded in dynamic market needs.

We recommend following these four steps that lead to practical, scalable, and profit-producing CPG/retailer collaborations.

The 4 Step Journey to Profitable Partnerships

Step 1: Get the Shelf Right

Step 2: Get the Assortment Right

Step 3: Get New Product Innovation and Introduction Right

Step 4: Get the Collaborative Organization Right



The New Journey to Purchase

As the battle for consumer hearts and minds intensifies, CPG manufacturers and retailers must focus on a new dimension – the journey to purchase.

25 years ago the journey to purchase was simple. Consumers got in their cars and drove to the store where they shopped for products that were available or orderable. Those consumers were often motivated to seek out certain products or brands because of catalogues, sales promotions, commercials, and a tradition of trust (“my mom used this brand of detergent and so do I”).

The new journey to purchases involves a shift in mindset and delivery paradigm. That shift manifests in the transition from bricks-and-mortar stores to a seamless delivery process that enables shoppers to purchase across multiple channels, from the digital shelf to the traditional shelf, whenever they want.

This is a major lift for most manufacturers and retailers. As a recent FMI survey shows, only 10% of retailers and 30% of manufacturers are prepared to truly exploit digital channels. We see these breakdowns all the time, especially as omnichannel strategies like “click and collect” play havoc with on-shelf-availability, exacerbating the already serious out-of-stocks problem.

A practical, executional-focused approach to partnering can help manufacturers and retailers solve operational challenges or gaps at every point in the buying and delivery process. In doing so, these partners can establish a new journey to purchase that delights consumers and wins the day. Ultimately, this integrated approach exponentially increases growth potential and profitability.

Go-to Market Execution Starts with the Shopper

What does a seamless, multi-channel, go-to-market collaboration between manufacturers and retailers look like?

The tendency with traditional partnerships is to start by thinking about existing capabilities and the needs of current functions, and how those will or can come together. However, this “protect and preserve” mentality only reinforces the barriers to collaboration, preventing the hard choices that can free an organization to “de-invest to reinvest.”

In contrast, seamless collaboration starts with the shopper and their needs.

Think about a simple shopping trip today and how it is evolving. Few pet owners take pleasure in going to the store to buy heavy bags of pet food regularly. On the other hand, they might enjoy shopping in-person for snacks, toys, and accessories while getting those large pet food bags delivered every few weeks without prompting. How can a retailer meet such needs holistically and individually without losing the consumer to other, more convenient delivery channels? Without a partnership with a CPG manufacturer, significant purchases at the retail store are in jeopardy.

Or imagine a consumer’s need for household cleaning products. Most consumers buy refills and spot-fills as they remember while shopping for other goods. Would it be possible and profitable for data from these smaller purchases to inform a smart, timely bulk delivery to the consumer? Could an expanded array of cleaning products be delivered at special times of the year like the Spring cleaning season?

In the modern 360 Degree Shelf (digital and traditional), shoppers expect products to always be available for purchase, and they increasingly rely on the retailer anticipating their needs. Yet, 80% of retail still takes place in-store. A balanced approach to the shelf fills consumer needs seamlessly and enhances sales by bringing digital solutions and bricks-and-mortar offerings together.

Retailers and manufacturers must develop a clear understanding of the optimal journey to purchase for each product and consumer. What are one consumer’s needs compared to another’s? Should specific products be offered digitally or in-store? How should they be priced? Which products, offered online, will lead to more in-store purchases and vice versa?

Strong collaboration starts with the basics –improving the supply chain to optimize inventories for every journey to purchase. It will also require a new way to manage out-of-stocks (stocking smarter rather than stocking more), and pricing items appropriately.

Out of that foundation, new levels of innovation and integration become possible for CPG manufacturers and traditional retailers.

“Retailers need to create an experience in which the consumer wants to spend time in the store because of convenience, ease of shoppability or access to knowledge and expertise. The retailer may not always offer the right products at the best price, but they should be able to offer the best value to convert that shopper into a buyer and encourage their loyalty. The digital component supports that. Maybe the ingredients to selected recipes are ready for pickup on the way home. Or perhaps shoppers do their homework on appliances in-store and know they’re getting the support, information, and price they need to make the right online purchase at home.”

— Jami McDermott, President, Sales Agency at CROSSMARK

Building New Operational Muscles

Traditionally, collaboration between manufacturers and retailers was based on a simple formula:



This approach, however, creates only one dimension for serving the consumer.

Even in just the past 18 to 24 months, shopper preferences have evolved rapidly. Consumers now expect to shop on multiple dimensions. This threatens traditional retailers and even manufacturers by taking away from their transaction volume. However, consumers are also taking advantage of expanded access to shop more.

The new journey to purchase means meeting those demands and expectations in the ways that serve consumers best. The compensation for suppliers and retailers is that consumers will pay more for convenience and experience, and they will also buy more, depending on how effectively they are served. The potential “pie” is growing for the nimble and innovative.

Taking advantage requires rethinking the standard go-to-market model. The cost of picking and operating fulfillment centers may not be the most effective way to build and run a supply chain. Stocking in store and picking up in-store may not be the most profitable model for the partnership. As the go-to-market model changes and delivery channels proliferate, the supply chain must expand, streamline and become more intelligent.

This will require that manufacturers and retailers collaborate differently on data. Practically speaking, a good place to start is by integrating point of sale and forecasting data – not only for in-store purchases but for online purchases, too.

All of these changes will have a major effect on other aspects of the delivery process. They will impact pricing by informing when retailers should charge premium pricing or value pricing. These shifts will also influence assortments and where they end up.

Understandably, this level of collaboration will force deeper questions. For example:

- Will the retail partner get credit for products sold online to consumers in their geographic area?
- Should the manufacturer provide the retailer with a market perspective on how brands are performing across all channels?
- How should the partners collaborate on pricing and promotion models?
- How can the partners balance promotions in a way that’s not duplicative and also highly personal to the individual shopper?

Such questions shape the emerging joint strategic vision between CPG and retailer.

“Retailers have always been willing to engage in joint business planning with suppliers, but too often, partnership means that someone is committed and someone else is not. Much like a marriage, it’s not always 50/50. Where and how does the retailer or supplier play the stronger role because they’re in a better position? How can both parties benefit equally, no matter the arrangement?”

– Jami McDermott, President, Sales Agency at CROSSMARK

4 Steps to Establishing Profitable Collaboration in a Seamless Retail World

There’s no clear roadmap for how to collaborate profitably in a world of seamless retailing. The path is still coming into view. However, certain basics must be included for a CPG/retailer partnership to be successful.

In traditional partnerships, manufacturers and retailers build their collaboration arrangements from the top down. They start by coordinating growth strategies and annual planning. Then the retailer goes off to build a better merchandizing organization, while the manufacturer focuses on becoming a brand and category management organization with enhanced marketing.

Today’s profitable partnerships must work toward a common view of the value of a particular brand for the retailer and the consumer, and figure out how to meet the consumers’ needs for access and experience. Until that clarity emerges, retailers and manufacturers must start with the most basic elements of the journey to purchase. Only then can they evolve over time to reach the level of integration and complexity required to win the consumer at every point of purchase.

What Does the Future of Seamless Retailing Look Like?

In the 1980s, few could have imagined the extent of change the music industry was about to undergo. Music consumers shopped in stores or via mail order clubs, relying on radio DJs and friends for information. Then digital download services began to take market share until streaming services exploded the industry and expanded the number of channels consumers could access. Today, consumers care less about their streaming service than their access to particular artists. In other words, they value brand over channel.

A company like Pillpack represents the next wave of consumer-focused disruption for traditional retailers and intermediaries (particularly distributors and pharmaceutical benefits managers). Combining innovations in distribution, data, and services (for manufacturers, insurers and patients), Pillpack makes prescription delivery, payment and medical adherence significantly easier for patients. As an Amazon company, this trusted relationship with consumers also provides another access-point for other Amazon products and services. Given this new level of value and convenience for patients, it’s no surprise that Amazon’s Pillpack is posing a growing threat to traditional pharmacies, both the big drugstore chains and independents.

The steps build as follows:

Step 1: Get the Shelf Right

Job 1 is maintaining profitability and stemming losses by protecting brands and maintaining traffic. This requires intense and optimized collaboration around fundamental processes like ensuring in-stock availability and executing go-to-market strategies.

As the importance of the virtual shelf increases, seamless shelf management will become the goal. Whether consumers walk in a store or go online, they should be completely confident that they can find the product (e.g., the CPG brand) they are seeking.

Supply chain and fulfillment capabilities must be optimized to make that possible. The right data is also critical.

Step 2: Get the Assortment Right

Powerful partnerships will achieve new levels of category, assortment, and shelf productivity at much lower costs. Aligning what goes on the shelf with what is needed to satisfy consumers will not only improve access and experience but also drive real growth and profitability for both the retailer and their suppliers.

“When a product is not available on the shelf, that has serious ramifications. Either the consumer ends up purchasing something else as a substitute (perhaps switching permanently) or they walk out of that store and go somewhere else. Either way, that represents a potentially losing proposition for both the retailer and the manufacturer.”

– Freddy Guard, VP, Lead Solutions Architect, Retail Solutions, Inc.

Step 3: Get New Product Innovation and Introduction Right

As collaboration deepens, both parties will become more aligned on emerging consumer needs and usage states. This will create a path for substantive brand and banner growth. Achieving best-in-class innovation will yield increased sales and profitability.

Step 4: Get the Collaborative Organization Right by Implementing Enabling Technologies

Ultimately, the partners will become more integrated from operational, strategic, and organizational standpoints. The “power” of the profitable partnership can be partly measured by the extent to which duplicative processes are reduced or eliminated. These processes include forecasting, database infrastructures, reporting systems, and analytics.

“Most distribution breakdowns occur at the last mile as we get closer to the shelf. That’s a sign that collaboration between manufacturers and retailers is lacking. Technology solutions on their own are not enough. We also need collaboration around processes. The ideal is to jointly come up with technology and process solutions that benefit the category, the brand, the supplier and the retailer.”

– Freddy Guard, VP, Lead Solutions Architect, Retail Solutions, Inc.

Many of today's retailers and manufacturers approach the digital shelf with the same mindset they applied to traditional merchandising. They rely on forecasting and pricing systems that are built to meet the needs of a bricks-and-mortar environment. (Digital retailers are guilty of the same perspective trap when it comes to omnichannel strategies. They fail to adapt their digital solutions to a bricks-and-mortar setting.)

As collaboration grows, the partners will become increasingly aware of how many duplicative and inefficient processes are in place. Together, they will need to examine their combined capabilities and infrastructures to determine which add value to the consumer and their journey to purchase. Some domains will be better sourced from one partner than the other.

Optimizing efficiencies in these areas will free-up resources for better uses. This "deinvest to reinvest" phase of organizational growth leads to the adoption of new capabilities and technologies that enable the partners to serve the consumer very differently, in-line with the ever-evolving demands of seamless retailing.

Conclusion: Unleashing New Capabilities that Win Consumers and Grow Profit

Trust has always been key to the success of partnering arrangements between manufacturers and retailers, just as it's been in creating consumer loyalty. Yet, the level of trust required in today's profitable partnerships goes beyond traditional expectations. It cannot be assumed or taken for granted but must be established by developing practical solutions together.

This is appropriate because, in the world of seamless retailing, the focus of the relationship is on the consumer, not the partnership. Consumers hold all the decision power today. Their evolving needs can only be met through an integrated and seamless approach to creating and executing a better shopping experience, no matter the delivery channel.

A powerful partnership is characterized by high-trust, increased efficiency, accelerated growth, and expanded profit. That relationship starts by fixing the problems of today that can only be solved through better collaboration. Picture people deep in both organizations figuring out how to solve practical challenges together – not two executives shaking hands after a presentation or press conference.

“The last chapter in this book hasn't been written. There's so much to uncover, test and learn before we spend the resources to bring the right solutions to scale. It will take trust, flexibility, and collaboration, however, to adapt quickly to the ever-changing needs of consumers.”

–Jami McDermott, President, Sales Agency at CROSSMARK



The first order of business is to focus on the shelf and assortment. After all, seamless retailing is premised on the certainty of product availability.

The next challenge is to focus on innovation that is relevant to those core problems and moves the needle on winning the consumer every day, in every interaction – virtual or in-store, or a combination of both.

Then, the partners can look at the current journey to purchase and examine it for inefficiencies, barriers, and opportunities that add value, reduce costs and drive growth and profitability.

Those insights might inspire a new kind of organizational integration. While the exact nature of that integration remains to be determined, it could lead to:

- **A formal collaborative alliance**
- **A shared redesign of the supply chain and delivery process**
- **A joint services entity that encompasses both partners**

It could even lead to a shared consulting group that studies seamless retailing, examines existing processes, and sells insights to other organizations looking to optimize their supply chains, service offerings, brand power, convenience, pricing, and so on.

The old approach is to measure success based on which partner in the relationship wins and which loses. Today's profitable partnership strives to better serve the consumer by optimizing processes, adding value, growing profit, and ruling the seamless shelf.

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ABOUT RSi

RSi is the world's leading provider of proven digital transformation technology solutions that enable CPG manufacturers and retailers to grow, profit and rule – from supply chain to shelf. More than three-quarters of the world's 100 top CPG companies and nearly 250 of the leading retailers trust RSi's unparalleled industry knowledge, best-in-class technology solutions, and deep data expertise to generate greater productivity and profitability. CPGs and retailers recapture hundreds of millions of dollars in lost sales each year with RSi's OSAPower, the world's #1 on-shelf availability suite of solutions. RSi's employees, located in 20 locations across the globe, are passionate about empowering customers to rule the shelf and own the future.