

**New Ideas for the Next
Generation of ECR and SCM.
(from 2012 ECR-Europe Conference)**

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The new philosophy for the future ECR: Working together to create sustainable value for consumers better, faster and at less cost

Figure 1. The cornerstones of ECR



(Source: ECR Europe Conference, 2012)

1. New Ways of Working Together

The new role of ECR: shaping the future of the industry, becoming a voice with a point of view, creating a clear agenda for collaboration and execution, setting concrete goals for 2020

Best Practices: The Best Practices are approaches and tools for enabling a smooth execution of New Ways of Working Together between trading partners. They include:

- Aligned Resources (Butterfly to Diamond);
- Aligned Strategies (Strategic Choices);
- Joint Business Planning;
- Common Goals and Common Measures Shared Tracking.

Steps to success

New Ways of Working Together is about a business transformation. This transformation is NOT about "present" vs "future". It is about NOT settling for "status quo" but striving for a New Generation!

Phase I - Getting Started: Strategy and Commitment

Step 1: Prioritize Strategic Choices

New Ways of Working Together presents retailers and manufacturers with four strategic choices. Each initiative prioritizes these choices based upon the trading relationship's capabilities and objectives.

Strategic Choices:

a) Focus on the Consumer.

Satisfying the consumer delivers value to both the manufacturer and the retailer. Placing the consumer at the center of the business process impacts the way we think about the business, the strategies

we choose the goals we set and the measures we use to evaluate our results.

b) Prepare our People. The effectiveness of New Ways of Working Together is limited only by the effectiveness of our organizations. The most obvious aspect of this choice is to enable cross-functional work to take place between trading partners by enabling new connections between supply resources and IT resources for example. Enabling people to more effectively impact the business will include exploring work process redesign and reward systems.

c) Connect our Business Information. Our business operations are increasingly reliant on information and this information must be managed as a strategic asset. The New Ways of Working Together approach is to establish connections between trading partners through shared information and use those connections to eliminate disruptions and enable growth. Standards based information initiatives such as accurate data synchronization and the Electronic Product Code (EPC) are in scope, but so are more basic types of information such as Point of Sale (POS) data and inventory information.

d) Share our Supply Chains. Trading partners should aspire to operate their supply chains as if they were one company. This means that sharing supply system information will become the standard way of operating. The shared supply chain will be more efficient, with fewer disruptions and contribute to consumer satisfaction.

Corporate initiatives succeed when they are tightly aligned with the company's core strategy and gain the sustained commitment of executive management. New Ways of Working Together offers a framework for getting alignment and commitment.

Step 2: Internalize Best Practices. The best practices are approaches and tools identified by current participants for enabling a smooth execution of the New Ways of Working Together Initiative between trading partners. Depending upon which strategic choices a company

makes, participants need to internalize some or all of these best practices.

Best Practices:

a) "Diamond" Organization Model. Link individuals from multiple functional areas (such as supply chain/logistics, finance and IT) with their counterparts at strategic trading partners, rather than routing all communication through a single point of contact.

b) Align Strategies. This seems obvious, but alignment of strategy is hard work when it involves two organizations working together. Identifying the few priorities that will enable sales growth or eliminate disruptions for both trading partners requires senior management commitment and an empowered organization. It is particularly important to align strategy before setting goals and measures that will focus the work.

c) Joint Business Planning. This is an enabling process for developing business action plans. Strategy alignment and the setting of common goals and common measures takes place within the structure of the annual, quarterly and regularly scheduled sales meetings.

d) Standard Measures and Common Goals; Shared Tracking and Scorecard and Measured Results. This best practice supports the delivery of results through a set of common goals and common measures regularly shared between trading partners and regularly reviewed in order to make adjustments and track results. When we have visibility to the right information, we enable faster, more informed decision making allowing us to focus on those projects with the greatest return.

e) Shared Recognition. Establish incentive and reward systems which promote collaboration within the company and externally with trading partners. These systems should reinforce and be based on consumer-driven performance metrics.

Step 3: Identify Strategic Partners

When considering New Ways of Working Together strategic partners, current pilot participants recommend:

- Selecting a partner that is like-minded in company culture
- Gaining a partner's commitment to change the way you work together
- Assuring the quality of the data (clean and accurate) exchanged.

Strategic alignment assurance at the highest levels of each organization with partner companies is a key component. Partners must understand and respect the others missions and remain aware, in positive fashion, of areas where they may not be perfectly aligned.

Jointly prepare the people for the new way of working together with a framework that is not "cookie cutter" and flexible enough to enable both organizations to gain benefit. Discussion on Diamond Team Member assignment follows.

Step 4: Assign Diamond Team Members

The Diamond Team approach is an investment in human resources with proven ROI in efficiencies. Utilizing our subject matter experts on strategic focus areas delivers incredible service to customers.

Step 5: Establish Business Value

New Ways of Working Together pilot participants immediately captured value by eliminating business disruptions and allowing merchandisers and sales personnel to focus on growth. Changing the business planning and execution approach will provide cumulative growth. Setting strategies before focusing on measures is highly recommended. Customization of New Ways of Working Together by strategies provides a scenario where the individual partners can make business planning and execution adjustments suited to their business needs and priorities. Let the strategies drive the metrics. Collaboration between retailers and manufacturers holds much of the potential for deeper consumer insights,

more efficient operations, and ultimately, the growth we all seek.

Step 6: Communicate Internally and Externally

Communicate and keep communicating - up, down, and out in all directions - so that everyone understands what you are doing, what you are doing means to them, and how what they do contributes to the overall success.

New Ways of Working Together provides a systematic approach to the art of effective communication. Building good communication processes into each step - shaping the strategic choices, identifying Diamond Team participants, the kick-off meeting and progress reviews - provides the transparency needed to allow Diamond Team members to adjust "on the fly" to maximize value.

Full-circle communication, providing and receiving positive feedback, insight into the needs of each team member as well as the cause and effect of each member's actions, provides empowerment to make a difference. This new way of working together may be the most important component.

Phase II – PREPARATION AND UNDERSTANDING

Step 1: Conduct the Kick-Off Planning Meeting

Identifying opportunities to improve begins with the right people having the right discussions using the principles of continuous improvement. Ensure everyone has the same visibility to and definition of success. The kick-off planning meeting should be viewed as a journey of renewed collaboration.

The objective of the joint planning meeting should be to achieve alignment on the business outcomes both organizations wish to achieve by implementing New Ways of Working Together Best Practices. Principles for consideration should include:

a) Participants: Start with a small group of allies with shared interests and proven abilities.

b) Scope: Consider all the activities - from source to consumer -

that affect sales call effectiveness. Pilot the subset of processes and technologies which have the greatest potential impact (enhancing growth and eliminating disruptions).

c) Objective: Choose an approach that works for your organizations and the participants.

d) Approach:

-Set common goals and a process to evaluate progress with common measures;

-Consider the impact on people - skills, roles, responsibilities;

-Prototype the technology required to automate key parts of the process; and

- Consider the impact of incentives, rewards and recognition for success.

Step 2: Select Top Business Opportunities

This seems obvious, but alignment of strategy is hard work when it involves two organizations working together. Identifying the few priorities which will enable sales growth or eliminate disruptions for both trading partners requires senior management commitment and an empowered organization. It is particularly important to align strategy before setting goals and measures which will focus the work.

Sample Business Opportunities

Promote Growth: Match products and assortments to consumer interests; Plan well targeted campaigns and promotions; Share timely feedback on retail performance; Strive for superior shopping experiences for the consumer.

Eliminate Disruptions: Tackle specific logistics challenges; Minimize store out-of-stocks; Stop pricing/scanning errors; Reduce invoice discrepancies and deductions.

Step 3: Identify KPIs and Supporting Measures

New Ways of Working Together is not a scorecarding project. It is a change in business approach and practice. It provides a venue for partners to share information about the consumer and to develop common definitions for success.

While most organizations think they are already doing this, in reality, they most likely are not. Misalignment

on the definition of KPIs and how KPIs are measured is a common problem between trading partners (external). Compounding the problem is the misalignment of definitions and measures within an organization (internal).

The lack of clear, agreed upon, standardized definitions is at fault. New Ways of Working Together is about achieving alignment - internally and externally, from trading partner to trading partner - across industry.

Measure Selection

To promote business growth and eliminate disruptions, identify KPIs and agree on supporting measures. One approach could be to select measures for the following four general areas:

a) Market/Consumer -

Measures which help identify the best category growth and profit strategy (sales, margin, supplier penetration, and retailer share of the market)

b) Operational Efficiency -

Measures which help reduce costs by highlighting unnecessary overhead and waste (order cycle time, days of supply, unsaleables, timely payment)

c) Information Accuracy -

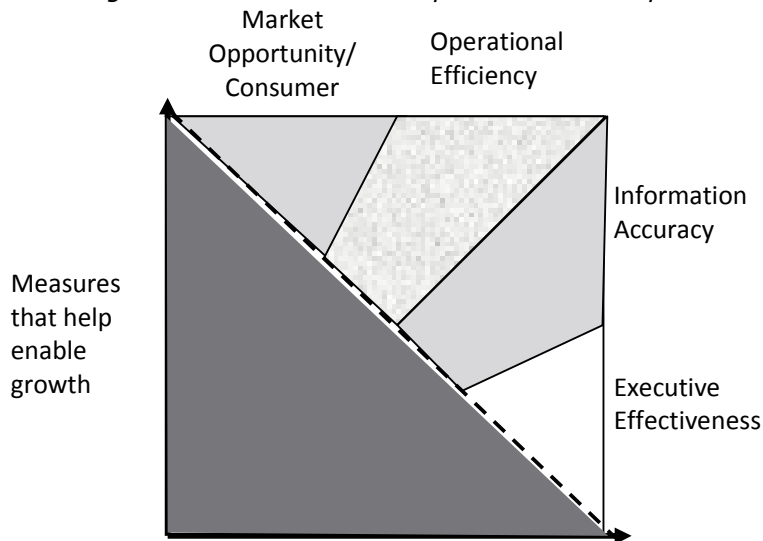
Measures which indicate whether the companies are sharing data and working in a synchronized manner (percentages for item data synchronization, item data accuracy, invoice accuracy, deduction incidents & balance)

d) Execution Effectiveness -

Measures which help avoid consumer out-of-stocks by revealing supply chain issues (percentages of order change, supplier service level, on time delivery, and store service level)

Depending on the strategic initiatives chosen and their ensuing focus, clearly defined/standardized measures between trading partners such as those listed above are key. New Ways of Working Together participants are employing effective communication processes to standardize their definitions and measures of these and other KPIs. While industry-wide standards on definitions and measures are pending, effective communication and alignment between trading partners on their definitions and measures are paramount.

Figure 2: Measures that help Eliminate Disruptions



(FMI, GCI, GMA GS1, VICS, NACDSN, *New ways of working together*, 2007)

Step 4: Set Project Timeline and Milestones

Fundamentally, New Ways of Working Together is not a project, but an ongoing new way of working together. Yet, like any implementation, it is advantageous to plan a series of transition phases.

Each New Ways of Working Together project should encompass a complete business cycle. While typically a season, the business cycle can be any mutually agreed period within the planning horizon. Participants need enough time to agree on their strategic initiatives, select measures, set goals, monitor progress and take actions that have a tangible impact on results. Leaving time for analysis and review, an initial project cycle may take seven to nine months. Formal milestones are important to keep each project on track. For The New Ways of Working Together process, project milestones fall into three categories:

a) Organizational: Team identification, kickoff meeting, project reviews, project conclusion;

b) Joint business planning: Objective setting, goal selection, quarterly reviews, results compilation/summation;

c) Systems implementation:

System selection, system go-live, user training.

Along the way, team leads from each company should hold weekly conference calls and/or face-to-face meetings to drive the project deliverables and address issues as they occur.

Example Pilot Project Timeline

November: The pilot begins with a project kickoff meeting, including all of the executive sponsors in attendance. The group sets the overall timeline for the project and assigns team leads from each company.

December: Steering committee members from all of the companies gather to select measures that best reflect New Ways of Working Together objectives. The team leads identify the source of data, frequency of collection, calculation method and other details for each measure.

January: Each trading pair meets separately to set goals for the pilot period. A technology solution is put into place to track results vs. goals along with data on the prior year's performance.

February: Users are trained on the on-line system and the tracking of goals vs. results begins.

March: The Diamond Teams hold their first quarterly business review meeting, establishing the sales initiatives and disruption remediation strategies for the pilot period.

April: The steering team members meet to review progress-to-date and recommend midcourse corrections to ensure successful pilot results.

May: The team leads present preliminary results to the project sponsors in preparation for future project phases.

June: The pilot officially ends, though systems, processes and teams are left in place to maintain New Ways of Working Together as an ongoing process. Team leads compile before vs. after results to build the business case for rolling out additional trading relationships.

Step 5: Communicate Internally and Externally

Trading partner collaboration is relationship building. The relationship between trading partners, like the internal relationship within a corporation, improves when information is shared accurately and freely.

The key is effective follow-up which reinforces and advances progress while supporting growth for both the companies and people involved.

One-to-One Reviews

Check in with people who are carrying out assignments individually. Understand what is being accomplished and what issues are being encountered. Ask what help is needed.

Group Progress Reviews

Assemble all key stakeholders and bring everyone up to date at once. The meetings should include a reminder of the ultimate goal established during the original kick-off meeting, along with a review of the master plan and progress reports from each leader. To ensure productive reviews, each presenter should be brief, speak with candor and allow adequate time for questions.

Progress review sessions have educational impact. People's understanding of the whole initiative

improves as issues are raised and discussed. Participants should keep in mind progress reviews are for progress reporting and planning of the immediate next steps. They are not debating events or meant for devising long-term strategy.

Industry Sharing

As we explore new ways of working together by eliminating disruptions to enable growth, we are mindful that there are opportunities for sharing non-competitive learnings for the benefit of the industry. We encourage all New Ways of Working Together participants to share their non-competitive learnings with industry through their respective associations and to harness the collective learnings of other New Ways of Working Together participants.

Phase III – PROJECT IMPLEMENTATION

Execution is key to business success. Great strategies alone cannot drive winning results. While successful execution isn't simple, the potential payoff is big for companies and their people.

Step 1: People: New Ways of Working Together - Diamond Team

The Diamond Team approach is a big investment in human resources. When executed properly, the Diamond Team approach provides efficiencies that offset the investment. By using subject matter experts to work on the various opportunities that arise from time to time, we can accelerate growth and deliver incredible service to our customers. Evaluate the entire value chain from source to consumer to be truly successful. Utilize your Diamond Team principles to achieve results in all functional areas.

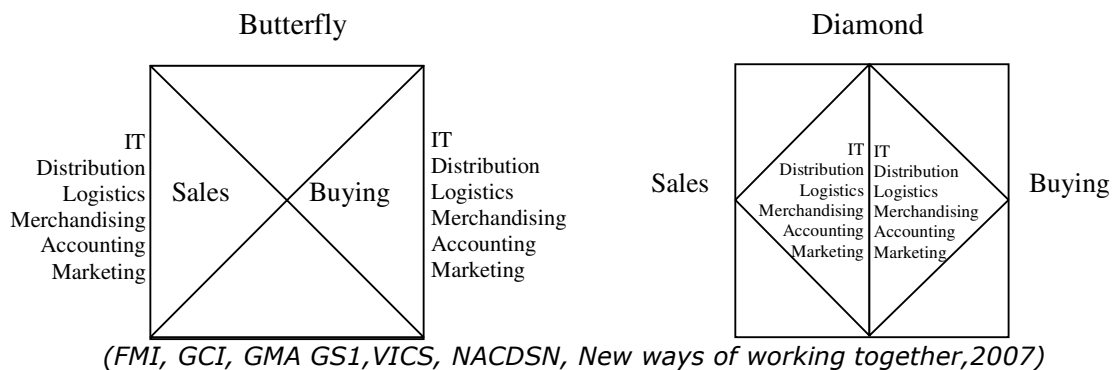
The butterfly diagram below represents the traditional buyer/seller connection structure (win-lose model) where communication is channeled through a single point of contact on each side. The depiction shows how organizations have traditionally used the sales call as a communication funnel where all information was fed between

Sales and Merchandising regardless of the topic. In this scenario, merchandising and sales personnel can get bogged down on tactical issues on behalf of various parts of the organization.

The diamond diagram (win-win model) represents the preferred model which creates connection between organizations across functional areas and skill sets. More connections deliver better alignment across the

organizations and more opportunities for the creation of value. The diamond relationship partners key functional area personnel with their trading partner counterparts. The scenario allows the real subject matter experts to work together toward common goals. New Ways of Working Together participants to date have noticed that empowering people has enhanced productivity in those key relationships.

Figure 3: From the philosophy win-lose (butterfly) to the philosophy win-win (diamond)



Step 2: Processes: Joint Business Planning

This is an enabling process for developing business action plans. Strategy alignment and the setting of common goals and common measures takes place within the structure of the annual, quarterly and regularly scheduled sales meetings.

The Joint Business Planning Process

a) Annual Executive Review:

Review annual results; Approve future strategies and goals; Refine/revise joint business plan process

b) Quarterly Cross Functional "Diamond" Sessions:

Review achievement against goals; Agree on any new strategic initiatives; Refine/revise goals for next period

c) Day-to-Day Interactions:

Execute joint business initiatives; Exploit newly identified opportunities; Address critical performance issues

Step 3: Enablers: Standards and Technology

Technology is a powerful tool that continually changes our world and lives.

It shatters conventional ways of doing business with extraordinary paradigm shifts. But true success is measured by the human potential technology releases. It is by equipping and empowering our people that untapped potential will be unleashed.

The Role of Standards

Many retailers and manufacturers engage in joint performance measurement initiatives in their ongoing trading relationships. To date, the means of calculating metrics values have been proprietary. Manufacturers and retailers often use different terms and calculation approaches for the same measures.

New Ways of Working Together promotes the development of a library of comprehensive unambiguous industry standard measures. Companies should have enough standard metrics available to represent the diverse performance measurement requirements. They must include *revenue, margin, market share, inventory, logistics, data quality, product quality, order management, invoicing and payment, as well as consumer and demographics measures*. The measure

definitions need to be precise enough that independent companies working with the same underlying data will derive the same metrics result.

The New Ways of Working Together initiative is working with the **GS1 standards** organization to develop standard specifications and interchanged data formats for performance measurement.

Data Sharing Alternatives

There are several options for sharing data to support New Ways of Working Together:

a) Supplier Extranet

A retailer can set up a supplier extranet allowing manufacturer users to log in, review information and perform tasks on the retailer's site. The extranet model has the advantage of offering access to manufacturers of any size - they do not need any in-house IT or planning applications to participate. However, a manufacturer has to work with each retailer that has an extranet separately, and often must cope with widely varying capabilities, navigation paradigms and user expectations. Manufacturers that depend on retailers' extranets cannot easily aggregate data across all of their customers to understand demand patterns and anomalies.

b) Message Interchange

Some companies exchange data through business-to-business transactions sets, using EDI, XML or flat file formats. The company-to-company model offers the advantage of standards based messages, and uses each company's own enterprise applications to analyze and act on the data. Companies can also combine this data across trading partners to get market level insights. However, this approach also demands that a company invest in a B2B communications infrastructure, and have applications that can deal with large volumes of consumer demand data. The company-to-company approach also must overcome batch data synchronization delays, and subtle differences in each company's user views.

c) Hosted/On-Demand

The hosted/on-demand model collects data from multiple retailers and makes it available to multiple manufacturers through a public exchange or private service. The hosted model combines the benefits of ease of access of the extranet model with the data aggregation and single point of access of the company-to-company model. However, the hosted model raises issues of data ownership and payment, security and competitive positioning. Some retailers also do not allow their data to be hosted by a third party, limiting the potential for the hosted model to become universal.

d) Hybrid

Realistically, most companies will have to accommodate multiple models. For example, a retailer may operate an extranet for smaller suppliers, while sending B2B transaction data to larger ones. Manufacturers may need to access extranets for retailers who do not offer message interchange as an option. In this complex environment, the use of standards is vital.

Phase IV – Measure the Process and Results

People want to succeed. Giving them the ability to know what success looks like and a common way to achieve that success drives teamwork and a personal sense of accomplishment. What gets measured gets done.

Step 1: Provide Visibility to Data - Measured data drives results. Each of the agreed upon KPIs and supporting measures should be made visible to everyone on the Diamond Team. Technology can provide the means to display accurate and timely data ensuring everyone sees the same information. As industry KPI definitions, means of measurement and communication of KPI scorecarding become available, adherence to the standards can provide a simplified means to the exchange of similar information between multiple trading partners.

Step 2: Develop Joint Performance Scorecard - New Ways of Working Together promotes the inclusion of measures beyond the sales and growth categories which appear in most traditional scorecards today. New Ways of Working Together scorecard elements should include measures of interest and value to both trading partners, providing motivation for everyone to participate and add business value to the process.

Step 3: Review Results - It is important to review the scorecard results on a weekly or monthly basis, depending on the frequency of the data input. The results should be shared with everyone on the Diamond Team and discussed in weekly or monthly trading partner meetings. Timely review of the results allows for easier and more effective course corrections if needed. Where favorable results are achieved, success should be celebrated along the way.

2. A New Capability Model

As with *Barriers*, many of the proposed *Capabilities* for Retailers and Manufacturers at first look different. This makes sense because, after all, the tasks of each differ markedly. However, this

too is deceptive since, at the points where the two organisations meet, *Capability* requirements are closely linked.

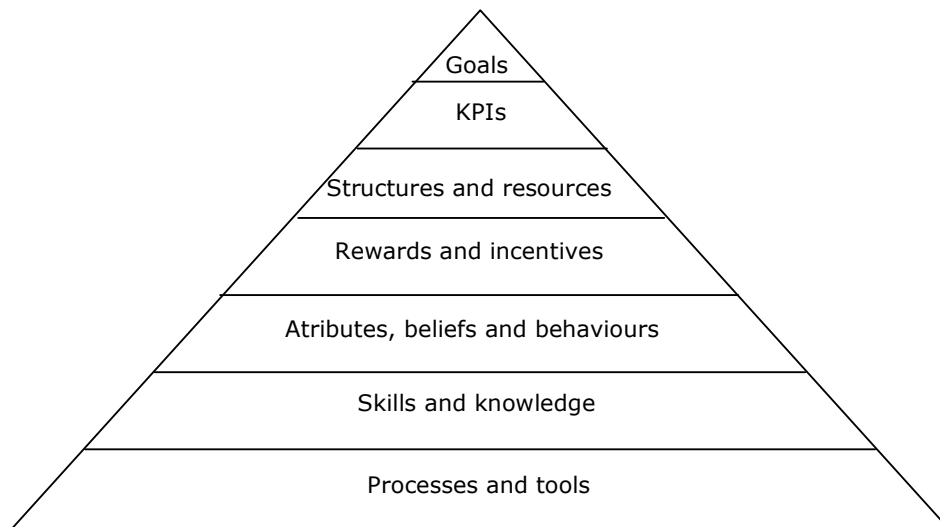
The following sets out a framework for a *New Capability Model* under seven dimensions of organisational effectiveness.

We should stress here that the model, in its conceptual form, can be adopted or adapted by both Retailers and Manufacturers. Its practical application to each will differ, however, because the respective roles and tasks will be different under several of the headings.

For example, *Flexible about shopper solutions* raises different issues for each partner because each controls a different, albeit linked, part of the value chain that creates solutions.

The consequence is that the detail of the model and, hence, the related benchmarking standards will be different for Retailers and Manufacturers. The seven element format is proposed in order to establish a bridge between the capabilities identified and the theme of *Prepare The People*.

Figure 4. The New capability Model



Goals: As noted earlier, vertical trading partners need to place shopper satisfaction at the centre of all considerations. This will mean justifying all strategy against this ideal and,

wherever possible, only doing those things that enhance it. The notion of *right products* should commence with innovation and *consumer* category strategy, and conclude with the right

assortment being available on shelf at the right price. Furthermore, *positive shopping experience* contains many facets on which trading partners should collaborate.

Key Performance Indicators: A set of KPIs was described previously that aims to define the goal of *shopper satisfaction*. These need to be seen as an integrated, indivisible set governing the choices made by operational decision makers in their daily work. However, to be effective, they must also be embraced at an enterprise level and supported by all functions.

To be viable, KPIs will need to provide the potential for long- and short-term mutual benefit, whilst also creating sustainable *shopper satisfaction*.

Structures and Resources: It is not the purpose to describe in detail an ideal organisation structure for vertical trading partner collaboration, as every corporation has its own particular style and preferred model. However, the principles for this are clear in those companies who are succeeding. Empowered, cross-functional category teams on both sides seem to offer the best vehicle for effective collaboration on joint business strategy. These teams need the authority to act fast to grasp opportunities, have the resources to conduct analysis, plan and execute trials and undertake joint initiatives, and be accountable for overall business results, as noted in KPIs above. Furthermore, team leaders on both sides need to be well-rounded executives with the experience and skills to act as business managers.

Rewards and Incentives: Most companies agree with the axiom that *you get what you measure*. If shopper satisfaction, along with its associated KPIs, is to be placed at the centre, then reward systems will need to be realigned to match. The new model has three *hard* reward dimensions: hard-wiring to KPIs, a balance of long- and short-term focus and integrated (and perhaps weighted) outcome rewards; and one *soft* dimension: *cultural norms*.

Some of the Retailers appear to have quite a strong cultural commitment of satisfying shoppers, which is evident in their corporate goals and the linkage

between this and business strategy. Many others on both sides will need to take steps to ensure that revised KPIs are genuinely enabled by a sympathetic culture.

Most companies agree that the biggest challenge is striking a balance between long- and short-term goals. Here, the distinction between private and public companies cannot be ignored. The short-term reporting pressures of the latter can push them off-strategy at times. In such cases, the *Terms of Engagement*, including an escalation process, may be used as a steadying influence where possible. Top management will need to play a key role in ensuring that teams exhaust options for creative (jointly developed) solutions to overcome weak commercial results before compromising longer term KPIs for shopper satisfaction and equity.

Attitudes, Beliefs and Behaviours: This goes to the heart of the New Ways project, representing one of the key challenges for any pilot. Existing practices within and between vertical trading partners are self-reinforcing, reflecting a long evolution of styles, skills, behaviours and beliefs about what works and what any individual might see as a successful personal strategy.

The key behavioural characteristics needed to support the New Capability Model include:

- a desire to create long-term, sustainable relationships;
- recognition of and willingness to work collaboratively and a belief that joint effort is necessary for success;
- a mindset that supports the need to constantly search for efficiencies in order to improve value to shoppers;
- a willingness to question existing practices so that flexibility in shopper solutions can be maximised;
- a willingness to trust and to remove those things that undermine it.

Skills and Knowledge: Most companies already have elements of the required skills somewhere in their organisations. Manufacturers are increasingly investing in shopper research and using the insights to develop shopper solutions. Many of them

also have long experience with disciplined use of globally consistent methods and tools. Many Retailers are also quite advanced in defining shopper segments and aligning strategy to them. Both sides will need to reassess current skill levels, and enhance these where necessary. The use of shopper insights to develop creative shopper activation may need further support. Furthermore, some new joint processes are needed, as noted below, and training/coaching in their use will be required.

Processes and Tools: One could argue that this area is out of scope for the *People Plank*. However, since processes and tools are, in effect, embedded know-how, they are also critical to any change strategy. Most of the process elements listed could, in practice, be rolled into the *New Decision Model*. However, they have been shown separately for the sake of clarity and to provide a basis for benchmarking existing capabilities. The emphasis here should be on redesigning end-to-end use of information and insights to create the most relevant, cost-effective shopper solutions. This requires knowing in advance how decisions are made and what information is needed at each stage to ensure that objective *shopper logic* is consistently applied.

3. Preparing the People for Change

3.1. Focus on the Consumer:

Although this is the core purpose of the New Ways project, few Retailers and even fewer Manufacturers have worked through what such a commitment means to vertical trading partner collaboration. Clearly, in this context, *Consumer* means the *Shoppers* in each Retailer's stores. Yet most Manufacturers have only recently started to think about shoppers as a more distinctive form of consumer and, hence, a key driver of marketing and category strategy. Furthermore, brand strategy and brand innovation are even less tailored to shoppers because marketing methods and research have been directed towards a more general view of consumer segments.

The commitment to only doing those things that serve shopper satisfaction (the right products and a

positive shopping experience) is very challenging for Manufacturers in particular, whose common instinctive response is defensive: "*how can I ensure that my own company's interests are protected?*"

A similarly bold commitment by Retailers is more obviously on-strategy for them, but no less challenging in cases where profit and assortment are driven by aggressive buying practices, and where they are not good at differentiating their offer to shoppers.

In both cases, the answer to the self-interest concern is quite simple. In a truly shopper-focused environment, Manufacturers will win if their efforts deliver better value, more relevant solutions than their competitors.

Retailers can count on them striving to do so if target shoppers are well understood and if the benefits to both trading partners are mutual and sustainable. Moving to this new platform will require a higher level of trust than commonly exists at present. Finding and demonstrating the value of this new level of trust will be a key dimension of the pilots. Factors that facilitate it have been accordingly built into the Capability Model.

3.2. Fragmented, functionally siloed goals:

For both Retailers and Manufacturers there are two quite distinctive types of organization structures. A *Functional* structure on one hand and an *Integrated* structure on the other.

Consider the following scenario:

- a brand manager develops his/her brand and range strategy based on maximising and protecting brand equity and achieving profit targets. The aim is national distribution, with little or no reference to shoppers and Retailers;

- the sales manager uses a promotional budget to push volume targets, with only loose reference to brands and profit. He/she uses category data to support the case for maximising distribution and uses all available means to push weaker items into distribution;

- buyers, with little or no shopper reference point make their choices about listings on short-term financial grounds rather than on enhancing the

attractiveness and relevance of the store to shoppers. The result is the acceptance of many items that clutter the category and add little benefit for shoppers;

- in ongoing category reviews the merchandising manager may decide to retain weaker items, also on the grounds of short-term turnover objectives. The result is that they remain on shelf far longer than they should and assortment is compromised.

At virtually no point in this scenario is the shopper placed at the centre of considerations, because each of the decision makers has a narrow, single-purpose goal, typical of a *Functional* structure. The common features of such a structure are:

- the separation of each functional task;
- task-based accountabilities;
- internal competition between functions to resolve priorities;
- the reconciliation of functional goals very high in the organizational hierarchy being well removed from day-to-day decisions;
- front line decision-makers seeing only partial outcomes of their actions.

By contrast, the main features of an *Integrated* structure are as follows:

- cross-functional integration of front-line decisions;
- accountabilities that mirror enterprise goals;
- functional goals that share a common core;
- internal collaboration used to resolve priorities;
- front-line decision makers seeing the whole outcome of their actions.

3.3. Goal alignment between vertical Trading Partners: Had it started with *Shopper Satisfaction* in mind, the emphasis would have more appropriately been on the question: "how can we measure attainment of this goal, whilst aiming for mutual benefit for vertical trading partners?"

For this restated question, the answer seems more obvious. If *Satisfaction* can be achieved through *the right products* and *a positive shopping experience*, then the key performance indicators should be:

- category growth, overall and for target shopper segments, because growth will only occur if shoppers are attracted to stores and motivated to buy;

- margin Euro and %, because individual margin targets can only be achieved if category growth occurs hand-in-hand with price optimisation for shoppers;

- share of national category, shopper's wallet, shopping missions and total basket, to ensure that success against all of the other shopping options is being achieved;

- retailer brand equity, in terms of its value image and shopping experience, to measure the long-term impact on shopper satisfaction.

Furthermore, in line with earlier comments about organisation structure, these should remain an integrated set of KPIs pursued by category teams on both sides of the trading relationship. Clearly, trading partners are more likely to achieve goal alignment at enterprise-to-enterprise level than through the artificial distortions caused by single purpose, functional goals. By applying integrated goals at operational level choices and tradeoffs are made in full knowledge of how results balance out.

4. The digital consumer era

Introduction: Addressing the Consumer's Digital Data Dilemma

Consumers' lives are changing due to the new technologies they are using at home, at work, in stores and on the go – and so is their shopping and consumption behavior. There is a clear need for retail and consumer goods companies to develop and nurture a new kind of relationship with consumers and shoppers using these new technologies. But this requires providing consumers with trustworthy information in the first place.

In today's digital marketplace, the data consumers receive is often inaccurate, incomplete or missing entirely. In consumer research recently conducted by GS1 UK and the Cranfield School of Management, 91% of mobile barcode scans returned incorrect product

descriptions and 75% returned no data at all

The Situation: Everybody Loses with Bad Digital Information

New opportunities for B2C interaction are expanding rapidly. Consider that at the end of 2010, one in four mobile Americans had smartphones, 3G penetration had crossed the 50% threshold, and nearly 47% of mobile subscribers were connected media users. In fact, the very definition of mobile is changing, based on the introduction of tablet devices such as the iPad.4.

The 2020 Future Value Chain report signals the enormous impact that consumer technologies will have on the consumer goods and retail industry. Consumer needs are changing more rapidly than ever, and the marketplace is being transformed as consumers' determination of a brand's value shifts from products to experiences. Consumers expect services that add value to their lives by making things easier for them. They want seamless access to trusted content and services from the device of their choice and require solutions to be easy to understand, simple to use and fast.

Increasingly consumers are looking beyond the label for information online when researching a product before purchasing. In fact, by some accounts, about half of all retail sales today are online or web-influenced. "The number of people searching for products and shopping with smartphones is growing in the triple digits with no signs of slowing," notes Sanjay Sarma, Co-Founder of the Auto-ID Lab at Massachusetts Institute of Technology. "At the same time, unauthenticated sources are proliferating – so it's essential that any shortcomings in this area are addressed today."

The Benefits: Everybody Wins with Good Digital Information

Delivering on the new consumer demands, providing trustworthy data and a consistent brand experience, while protecting against fraud creates new challenges for business. All stakeholders

must ensure that "virtual" product information provided to consumers is, at minimum, just as good as what's on the printed label and can even go beyond that in terms of providing individually relevant additional information that is not displayed on the label or packaging. Improving the digital consumer information situation can bring significant benefits to the key stakeholders.

Consumers Can Make Better Buying Decisions

With a trusted source of data, consumers will get accurate information to help them make informed product decisions and make the most of their purchases. For example, GS1 Australia and Victoria University conducted a trial to assess how smartphone technology and GS1 barcodes could be harnessed to fight obesity. During the eight-week trial, overweight participants used smartphones to scan barcodes on breads, breakfast cereals and cookies and received information on the sodium and saturated fat content of each of the products, based on recommended serving values from the National Heart Foundation. To deliver the information, the smartphone application drew standardized data, extracted from GS1 Australia's electronic product catalog, the GS1net data pool, and supplemented it with data gathered from products from four major supermarkets.

The study found that 40% of participants changed their purchase because of the information provided. While for the majority buying behavior was not altered, due in part to their continued purchase for household members, the application made all participants more aware of their diet. And 67% agreed that the application would be more useful if it covered more products.

The Vision: Moving Towards Good Digital Information for Consumers

A limited window of opportunity now exists for manufacturers, retailers, service providers and technology companies to work together to develop a solution to meet consumers' digital

information needs. But where do we focus and how do we get there?

It is important to distinguish between the two types of data that are communicated to consumers:

a) Authoritative data: This is the core, master product data including product descriptions, ingredients and nutritional information. It is provided by the brand owners (manufacturers or retailers) or other brand-owner authorized sources. Additionally, some authoritative information can also be provided by independent, certified bodies, such as safety ratings from agencies like Underwriter Laboratories or Kosher certification.

b) Non-authoritative data: This is additional product data such as that provided by entities other than the brand owners. Examples include retailer-specific data such as pricing, availability and recommendations or third-party data like product reviews, ratings and recipes. Logically, the initial focus for a common industry approach would need to be on authoritative data. Four key factors must be addressed to improve authoritative digital information for consumers:

a) Data Integrity: Data remains the same as provided by the source.

b) Data Authenticity: Data is provided by a legitimate brand-authorized source.

c) Data Accuracy: Data is correct.

d) Data Completeness: All data attributes and all SKUs are available.

The B2C trusted source of information initiative provides the industry with a significant opportunity to influence consumer behavior, deliver desirable brand positioning in the marketplace and demonstrate good corporate responsibility. But in order to make the initiative a success, everyone must play a role.

Accept Joint Responsibility

Improving digital product information for consumers requires that all relevant players understand their responsibility to work together collaboratively and in a consistent manner. For example, brand owners

need to maintain and share accurate and complete consumer information in a standardized way. Subsequently, application providers that communicate digital information should utilize this data in a consistent manner towards consumers all over the world.

GS1 and data-pool providers should ensure that an adequate, standardized information infrastructure is available to accurately communicate relevant and trustworthy information to technology-enabled consumers and shoppers. This solution should be based on consensus among all relevant stakeholders, and can only be achieved via a business-led approach.

5. The mega trends established

The mega trends with the highest relevance for the CG industry: health & Wellness (e.g., social health, healthy cosmetics, functional food, increasing life expectancy); Fight for Resources (e.g., rising energy demand, commodity prices, food/water security); Sustainability (e.g., CSR, reusability, recycling, fair trade, image impact); digital life (e.g., new technologies, 'big data' analysis, transparency, connectivity). In a next step, it will be important to understand the impact of the prioritized trends on retailers and manufacturers in more detail, analyzing the inter-linkages between trends and highlighting the consequences of today's and tomorrow's interconnectivity.

5. 1. Progress in Measuring Sustainability

The Sustainability Strategic Pillar of the CGF will help drive and communicate sustainability improvements throughout the value chain of the consumer goods industry. It will do so by identifying projects where we can work together collaboratively to improve the sustainability profile of our industry. Where possible it wants to bring global alignment and voluntary standards to non-competitive areas such as ethical sourcing. In addition, there is a need to develop and agree on methodologies and metrics that measure

sustainability improvements in our industry.

5.1.1. Product sustainability Measurement

The first step in addressing these issues is to understand and measure the impacts that of the businesses and across the value chains. It is only then that we can prioritize resources to manage those impacts. What is missing today is a single global framework to be able to share readily comparable information between companies, regulators, customers and NGOs. Such a framework would allow everyone to use the same standards and data sets to measure their sustainability impacts.

Many other organisations recognise the need for a single system, but no-one is driving the harmonization of the various different initiatives at a global level. As a result regulators are beginning to fill this gap by developing their own standards and rules. For example the French government is trialling a system of product sustainability measurement and the EU has set a deadline for the end of 2012 to create a standard that could underpin sustainability labelling.

The Steering Group has developed a set of recommendations for carbon and sustainability measurement of the Consumer Goods Forum that will help create greater global alignment and produce the single system that would make management of these challenges easier. The aim has been to develop common systems for:

- Measurement of the impact of the operations (heating, lighting, factories, transport etc.);
- Measurement of the impact of the products that produce and sell (the impact of growing or extracting raw materials, manufacturing impacts, distribution and retail impacts, and consumer use and disposal).

5.1.2. Deforestation "Time bound public commitments on palm oil"

Deforestation accounts for 20% of all greenhouse gas emissions. Whilst the causes of deforestation are complex it is

generally acknowledged that the biggest drivers are the cultivation of soya and oil palm, logging for the production of paper and board and the rearing of cattle. All of these commodities are major ingredients in the supply chains of most consumer goods companies.

5.1.3. Palm oil

29 of the companies on the CGF Board (representing 78% of the revenues) have time bound public commitments on palm oil and of these, 23 (representing 73% of the revenues) are members of the Roundtable of Sustainable Palm Oil (RSPO). Some members do not have a commitment as the sourced volume is either not material or the company does not use the commodity at all. For others the commitment is work in progress.

For those companies using palm oil it is recommended to make every effort to accelerate the rate of conversion to certified sustainable palm oil (RSPO or equivalent). The Steering Group agreed to publicize key milestones by both individual companies and collectively by the CGF as this will build confidence amongst the growers.

5.1.4. Soy

9 of the companies on the CGF Board (representing 46% of the revenues) have public commitments on Soy and of these, 5 are members of the Round Table on Responsible Soy Association (RTRS). Out of all CGF members, 14 are members of the RTRS.

On Soy there was a strong consensus that if the CGF was to achieve its goals then it should recommend the RTRS Standard (or equivalent). Accordingly the working team will conduct due diligence on the roundtable to ensure that it has the capacity to deliver the objectives.

The areas to be explored most closely are:

- its ability to bring back into membership those growers who have resigned,
- its ability to cope with both GM and Non GM streams of soy.

A strategy and action plan for Soy was prepared for the June 2012 Board meeting.

5.1.5. Paper and Board

A relatively large number of members (35) have public commitments on Paper & Board. However, only a limited number include a commitment on deforestation.

The Paper & Board workgroup is currently working on a phased action plan, which will include :

- industry sourcing principles & best practices;
- industry commitment & metrics;
- industry communication and engagement;
- a proposed focus on Indonesia, Malaysia, Brazil, Chile, Russia, Scandinavia, Canada, and Africa.

The outcome of this action plan will be a set of sourcing principles – rather than certification.

Most companies believe that the strongest standard for paper is that produced by the Forest Stewardship Council (FSC). However it was accepted by all, that there was currently insufficient supply of FSC material to meet the volume requirements of CGF companies. In the meantime therefore all companies will continue to work with a mixture of standards – FSC, PEFC (Programme for the Endorsement of Forest Certification) and SFI.

5.1.6. Refrigeration

Refrigeration is also a significant and growing source of greenhouse gases. This is because the dominant technology - hydro fluorocarbons (HFC) - is 1400 times more potent than carbon dioxide as a greenhouse gas. HFC's represent 1.5% of total warming potential today and are expected to increase to 6-9% of total GHG by 2050 unless we take action.

Again, The Consumer Goods Forum's Board has agreed on a resolution and action plan. The companies are taking action to mobilize resources within their respective businesses to begin phasing out HFC refrigerants by 2015 and replace them with non-HFC refrigerants (natural refrigerant alternatives) where these are legally allowed and available for new

purchases of point-of-sale units and large refrigeration installations.

5.2. The Global Social Compliance Programme (GSCP)

The GSCP is a business-driven programme for the continuous improvement of working and environmental conditions across sectors in global supply chains.

The GSCP was created by and for global buying companies wanting to work collaboratively on improving the sustainability (social and environmental) of their oftenshared supply base. To this end, these companies are working on harmonizing existing efforts to deliver a shared, global and sustainable approach based on consensus and best existing practice, to reduce the confusion and duplication that often hinder valuable CSR approaches. This work has been supported from the start by the participation of various stakeholders (NGOs, IOs, Trade Unions, Academics, SRIs), both at governance level and in the Programme's work streams.

5.2.1. The GSCP Equivalence Process

The Equivalence Process is a unique benchmarking system launched last year by the GSCP. It allows companies to assess their standards and systems against best existing practices as defined in the GSCP Reference tools. The aim is double:

- to help companies strengthen their tools and improve their supply chain monitoring processes;
- to create comparability between 2 companies' tools to enable mutual recognition.

The benchmarking process is split into 2 phases, followed by a 3rd phase of sharing and comparing results on the Equivalence Process online platform.

The first phase is a Self-Assessment, for internal assessment of tools – registrations for this Self-Assessment are ongoing, and different users (buying companies, business schemes and auditing bodies) have now started their online assessment.

The second phase, the Equivalence Assessment, involves 3rd party validation of a user's Self-

Assessment to allow the user to share its assessment externally. This will ensure completeness and accuracy of the Self-Assessment and will be performed by independent experts selected and trained by the GSCP team. The Equivalence Process Register of Experts now counts 35 experts covering both social and environmental expertise areas.

The board of The Consumer Goods Forum approved a set of resolutions on Health & Wellness as well as a framework of actions. The resolutions are voluntary and non-binding statements. They set out recommendations on how the members of The Consumer Goods Forum can work together to improve the health and wellness of consumers, employees, their families and the communities they serve.

They cover three main areas of work:

- Access and availability of products and services that support healthier diets and lifestyles,
- Transparent, fact-based information that helps consumers to make informed choices
- Communication and educational programmes to raise awareness and inspire healthier lifestyles.

Along with the approval, the Board has asked the Health & Wellness Core Team to work on implementation plans of the resolutions as well as pursue a clearer understanding of the consequences and needs of ageing populations. The team has focused on three areas.

Engaging with Stakeholders to support a wide implementation of The Consumer Goods Forum Resolutions The Health & Wellness Core Team has identified the following guiding principles to govern the process of engaging and managing its Stakeholders:

- The Consumer Goods Forum Health & Wellness Core Team serves as the global platform for thought leadership and knowledge exchange on health and wellness of consumers.
- There are internal Stakeholders (i.e. part of The Forum Governance) and external Stakeholders.

- The objective of the engagement with Stakeholders is to establish a constructive and continuous industry dialogue.

- To engage efficiently with its Stakeholders, the Health & Wellness Core Team needs to establish an inventory of Company and non-Company led initiatives.

- The engagement should be at both Company and The Forum level.

- Company's direct involvement requires a strong internal alignment while The Forum engagement requires a strong Board' support.

- There are three levels of engagement:

- Sharing the Resolutions;
- Engaging on the Resolutions;
- Aligning on the Resolutions.

5.3. The Global Food Safety Initiative (GFSI)

Advancing Global Food Safety Through Collaboration. This theme was introduced by Yves Rey (Danone) and Frank Yiannas (Walmart) in their opening speech, demonstrating how their companies collaborate beyond borders and cultures in an effort to guarantee safe food to shoppers around the world. "In a changing food system, food production, processing, distribution, retail, foodservice, transportation all have a shared responsibility to provide safe food," said Frank Yiannas "Manufacturers alone can't do it. Retailers alone can't produce safe food. Neither can regulatory officials, nor consumers. In other words, 21st century food safety requires greater collaboration than at any other point in human history".

Yves Rey added that today's consumer not only expects value for money but also demands that companies act responsibly towards the community. "Each time there is a food safety incident, besides the human tragedy, there is a loss of confidence in our food supply," he said.

The best practices shared provided attendees with not only food for thought but also true actionable opportunities. "This conference is priceless, the knowledge that you walk

away with allows you to apply it right away in your day-to-day work." said one attendee. "It's always interesting to see what others have achieved to reach that noble goal and what is still to be done, as it's a long path!" commented another.

5.4. OPERATIONAL EXCELLENCE

Research coming out of the 2020 vision highlighted the fact that 80-90% of information on the companies and products is now being generated by third parties, and it is becoming increasingly more difficult for consumers to get to factual independent information. Social networks are driving the need for a "trusted source of data" and "one version of the truth" backed by an independent seal of information integrity.

To address this issue, the GS1 B2C Project Board and the Consumer Goods Forum's IT Committee - Connecting Businesses for Consumers are combining forces to charter the B2C Information Needs Group. The intent is to enable clear communication of stakeholder company business needs and best practices in the "Business to Consumer" information sharing space, so that the solutions framework and standards reflect stakeholder needs and priorities thus making them easier to adopt and drive value creation.

Consumer behaviour is changing and the digital era of social networks has played a major role as a catalyst behind these changes. While this technology has the potential power to disrupt established institutions and brand equity it also offers us opportunities to connect directly with our shoppers and consumers.

As an industry it is needed to identify the potential risks and opportunities and establish guidelines to ensure that initiatives driven do not compromise the industry reputation as a whole. Importantly, brands and retailers must respect maintain the trust of consumers and shoppers in a highly transparent, 24/7 consumer driven culture.

Consumer devices and associated applications are growing trends that are outpacing established industry tools and solutions. This trend requires identifying the impact on shopper buying decisions

and where possible extending our processes to integrate these capabilities into operating models. There are also trends in the consumerisation of IT from the enterprise point of view. As a first step for the project, the Working Group is looking into "touch points" that could be collaboratively addressed among companies in the area of e-couponing:

- Generic Coupon
- Serialized Coupon

5.5. CLOUD COMPUTING

As Cloud Computing gains momentum and maturity, this Working Group is exploring how Cloud Computing could enable collaboration between retailers and manufacturers, support information management / exchange and support consumer expectations in the future. The Working Group is taking on the role to educate and inform the members of The Consumer Goods Forum on how Cloud Computing will change the IT dynamics within our independent businesses as well as how it will enable collaboration and provide a vehicle for value added services to our consumers.

As an industry, we are faced with an increasingly more complex set of variables that we need to operate under. Globalization brings more diverse markets and complexity. At the same time, the number of SKU's is growing with the increasing need to differentiate and meet consumer needs. The fact that we are still operating in a "batch mode" is a primary inhibitor impacting consumer / shopper expectations. Real-time information on consumer insights, sales, deliveries and forecasts would enable Retailers and Manufacturers to respond quickly to shopper demands. The objective of this Working Group is to educate and inform the members of The Consumer Goods Forum on the topic at the IT Conference 2012 with experiences and actionable take-aways.

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