New Ways of Working Together

Preparing Our People for the New World

Childs Davidson Limited

gci GLOBAL COMMERCE INITIATIVE

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Executive Summary

This *White Paper* was commissioned by the *GCI New Ways of Working Together* project team as a foundational set of ideals upon which positive change could be built. Its intent is to provide independent expert advice on how a *New Capability Model*, focused on collaboration to serve the consumer, could look.

The case for change in our industry is a compelling one. Despite many years of committed effort to eliminate waste in the value chain through programs like *Efficient Consumer Response*, many aspects of dysfunction remain:

- stores still have too many SKUs;
- inventories are too high;
- out-of-stocks persist;
- consumers find little relevance in promotions;
- shoppers are frustrated with their shopping experience;
- category growth has been inconsistent;
- buying/selling productivity is poor.

The reasons for these continuing problems are many. However underlying them all is the basic issue of goal misalignment between vertical trading partners and the cascading effect this has on all aspects of organisational capabilities on both sides. In turn, this is reflected in several common barriers to effective joint value creation between vertical trading partners: one dimensional, functionally siloed objectives and strategies that ignore the shopper; too much focus on individual brands (by both trading partners) rather than on using strong brands to enhance and grow categories and total basket value to shoppers; annual negotiations that go on for too long; and disagreements on single issues that distract from joint value creation.

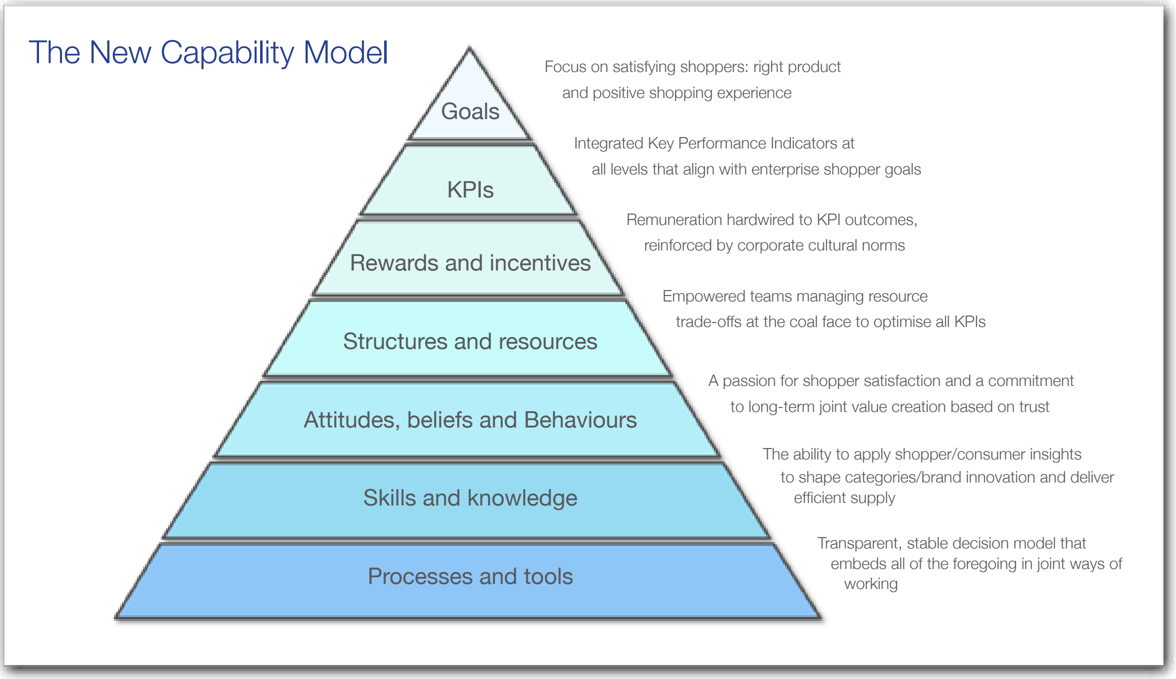
This white paper proposes an integrated organisational solution to the misalignment challenge. The *New Capability Model* identifies a set of capability standards, beginning with the goal of *Shopper Satisfaction* and translates this into key aspects of organisational effectiveness. It provides a guiding set of ideals and principles and a concrete basis for individual companies to establish their own change initiatives.

In late 2008, GCI is leading the pilot testing of this model in Poland and the US with interested retailers and manufacturers. Participants will first be evaluated and benchmarked against the capabilities described in the *Model* and will then work in pairs of vertical trading partners on real issues and opportunities identified by each of them. The resulting projects will take an integrated approach to a core project and to organisational alignment.

Ultimately the lessons drawn from this work will serve three purposes:

- firstly, vertical trading partners will establish better dialogue on alignment and create real commercial value from their collaboration;
- secondly, the *Model* will be refined and validated;
- thirdly, at industry level, GCI will identify priority areas where supporting methods and tools can be further developed as a basis for guiding better practices in the industry worldwide.

In the paper that follows, we provide comprehensive rationale for the case for change and a detailed description of the *New Capability Model,* shown below.

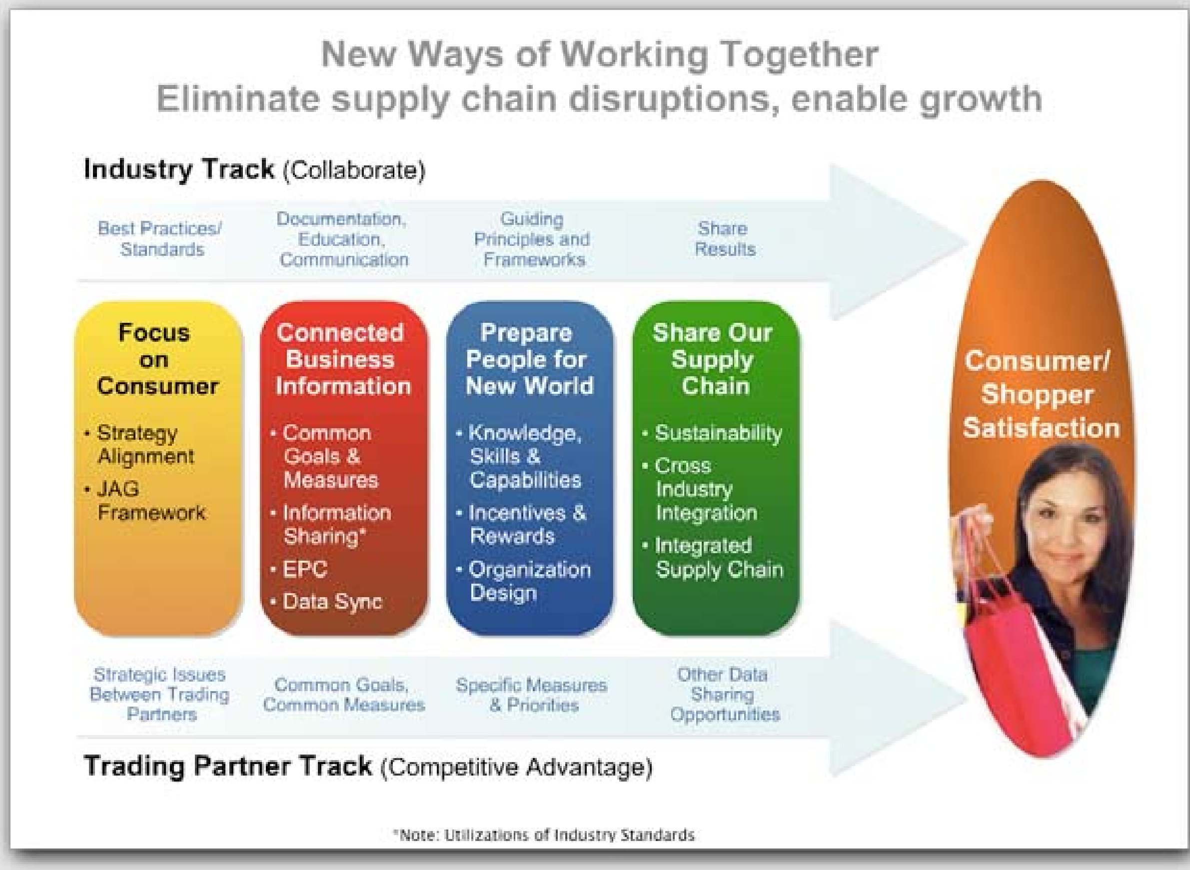


Introduction

In May 2006, the Global Commerce Initiative (GCI) launched a project to understand the forces that will affect our industry over the next 10 years. The purpose of the project was to create a vision and enable dialogue among industry participants about how the industry should address or influence these forces in order to assure long-term success. Based upon the identified trends and forces, the purpose was also to define key areas where vertical trading partners should collaborate in order to create efficiencies in the value chain in 2016.

In the conclusion of "*2016: The Future Value Chain*", the Board of GCI issued a call to action and launched three projects to help shape the future of the consumer goods industry.

New Ways of Working Together was one such project. Consistent with its name, its purpose was to develop new ways for vertical trading partners to work together – including sustainable changes in culture, collaborative business planning and new measures and rewards.



New Ways of Working Together is about business transformation to better satisfy the consumer and shopper. It offers a framework for getting alignment and commitment on four key strategic choices in the collaboration of trading partners.

Focus on the Consumer: involves Trading Partner bi-lateral collaboration to better meet the needs of our consumers and shoppers. One breakthrough concept here, the Jointly Agreed Growth (JAG) Methodology addresses the fact that, in more strategic relationships, annual business planning is simply insufficient. Business plans must stretch the time horizon to allow for bricks and mortar or capital investments. With this longer term business planning, protecting intellectual property and creating trust are essential.

Connect Business Information: involves establishing common goals, common measures and a common language. Key components of this plank include the establishment of GS1 standards for key performance indicators, called Trading Partner Performance Measures and the use of Global Data Synchronization to ensure there is one single view.

Prepare our People: addresses the organisational structures, capabilities, measure, people performance incentives and rewards that either facilitate or create barriers to collaboration.

Share Our Supply Chain: is all about how the industry and trading partners must do things differently to address volatile energy costs and the need for more sustainable business practices.

The main focus of this White Paper is on Preparing our People for the New World. Clearly, this envisages the need for a step change in the way organisations approach structures, skills, rewards and incentives to enable such a bold new industry vision.

The Case for Change

Since the early 1990s, the fast moving consumer goods industry has been focused on eliminating waste in the value chain and thereby better meeting the needs of consumers. Efficient Consumer Response was founded on the strategies of Efficient Assortment, Efficient Replenishment, Efficient Promotion and Efficient New Item Introduction. Our industry¹s efforts have been rewarded: an in-depth study by IBM and five European business schools published in 2006 on ten years of ECR in Europe showed savings of 3.6% of consumer sales achieved in that period through successful ECR implementation across the region. Logically, ECR implementers benefited most: top-tier adopters enjoyed 6% better service levels, 5% higher on-shelf availability and 10 days lower inventories than low or non adopters of ECR practices (see full report on www.ecrnet.org)

> One CPG company had a category that grew in volume by +50% over the last 6 years, but also grew SKU complexity +400% and package complexity by +250%.

Yet despite these successes, today’s value chain remains filled with waste:

- **Stores are over SKU'd:** While the number of new products has soared in the North American market from 2,899 in 1980 to 10,651 in 2005, consumer adoption has flagged. [1] In 2007 alone, 85,000 new SKUs were registered in the US. However, new items had no impact on overall category size. [2]

According to the Food Marketing Industry Speaks, 2007, the average number of items in a typical supermarket was 45,000: up from 30,000 in 1997 and 24,500 in 1987. [3]

> "This category used to be real simple. But over the past few years we have more than doubled the number of SKUs. While the category has grown, it certainly has not doubled and our SKU productivity (sales per SKU) is way down. So why do we have all these SKUs? I think because the manufacturers come with a boatload of money and my buyers get measured on how much of that money they collect."

- **Inventories are too high:** According to the GCI Global Scorecard, total system wide inventories have remained relatively flat, at 73.2 days, for the last seven years, with the current three year average at plus five days. [4]

- **Out-of-Stocks persist:** These have remained largely unchanged at 8.3% over the past five years and costing retailers 4.0% of sales. [5]

- **Consumers find little relevance in promotions** and in the way retailers and brands communicate with them: Promotions are not responding to shopper needs and thus are not achieving their goal of building loyalty. Connecting with shoppers on an emotional level provides great value and drives loyalty. [6]

Furthermore, promotional ROI in Western Europe is negative and falling from a 0.47 return in 2003 to a 0.38 return in 2007. [7]

> "We presented some new items that all had very clear consumer advantages based on product and commercial innovation. We felt that our brands deserved their fair share of shelf space and support to maximize on the increased category sales that would be gained via the strong consumer demand. The buyer agreed that our new items were clearly superior from a consumer standpoint but opted to give us minimal support so she could bring in all other items that were being presented by other manufacturers, because their 'over and above' dollars were too good to pass up."

- **Shoppers are frustrated with their shopping experience:** Forty-nine percent (49.0%) of European shoppers state that in-store frustrations caused them to stop shopping or to shop less frequently at the store where they experienced the frustration. [8]

1 Nielsen, Consumer Insight, June 2007, Issue 2.
2 Nielsen, Consumer Insight, Mar. 2008, Issue 7.
3 Discount Store News, May 3, 1999, FMI information service.
4 GCI Scorecard, all geographies/all categories 2001-2007.
5 2003 FMI/GMA study.
6 The World According to Shoppers, CCRRC, NA 2004
7 Accuris Benchmark Survey on Promotion Efficiency 2008
8 Source: Cap Gemini Ernst & Young, Intel, Cisco Systems & Microsoft, Transforming the Shopping Experience through Technology, A Study in European Consumer Buying Behaviour, 2003.

- **Category growth — a signal that consumer needs are being met — has been inconsistent**, reflecting the fact that our industry is losing share of the consumer's wallet. A 1999 presentation from ECR-Europe (Grow the Pie/Split the Pie) concluded that trading partners are more focused on negotiation than on innovation. Similar categories in the US, where vertical trading partner collaboration is generally more advanced, averaged 2.0% more growth than their counterparts in Western Europe.

- **Buying/selling productivity is poor:** A recent ECR Europe Study noted that "The transaction cost of managing the daily disruptions to the business, supply chain issues, deductions and protracted and repeated negotiations are preventing trading partners from working on more meaningful consumer activity".

  - When asked the question, "How focused on the consumer and shopper, on driving demand and generating growth, is the current negotiation model in Europe?", almost 75.0% answered either not at all focused or not really focused.[9]

  - This is despite the fact that 95.0% of retailers and a comparable number of consumer products firms believe that it is important to jointly develop consumer and shopper insights.[10]

> "Let me give you an example as a dedicated shopper of a large grocery chain. I spend more than $500 a month for my family. Two Years ago, they chain-mailed a letter that, as a "most valued shopper", I was given some special coupon offers 'especially for me'. Out of the 12 coupons offered, not ONE was for a product I had ever purchased, anywhere. This mailer was SO frustrating, I sent a letter to the president of the chain explaining my sincere disappointment....clearly they didn't understand ME as a "valued shopper" and were just sending me coupons that were good for them. What I got in return was a bunch of FREE coupons with the apology letter. The coupons were also for products I had NEVER purchased and don't use. I didn't use the FREE coupons, instead I boycotted the chain."

Much of the waste and inefficiency in the value chain is a consequence of goal misalignment within and between vertical trading partners, lack of trust and poor information sharing. Clearly, structural flaws in the existing operating model must be addressed if the industry is ever to embrace its goal of better serving shoppers and consumers.

This will mean replacing dysfunction with new, more effective capabilities that deliver the right product at the right place at a competitive price at the right time; with the optimal amount of inventory; with improved buying/selling productivity.

In the end, it is satisfied shoppers who will determine our success when they make a purchase and, in that purchase, reward participants in the value chain and their stakeholders/shareholders.

9 ECR, Jointly Agreed Growth Toolkit, June 2008.

10 The strategic agenda for consumer products customer management, IBM Consulting Services, 2004

Key Findings

The recommendations contained in this paper are a synthesis of inputs from 15 Retailers and Manufacturers at top management and operations levels. The barriers raised by both groups are, at first glance, quite different but, on closer examination, remarkably similar. For example, Account Managers pushing brand volumes and Buyers pushing percent margin goals both reflect a failure to Focus on the Consumer caused by disconnected, single-purpose goals.

Before detailing either the barriers or a new model, three key observations need to be made:

1. Lack of focus on the Consumer: Although consumer satisfaction 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 and typically brand-centric view of consumer segments.

> "We frequently agree on sound strategic agendas for growth with our trading partners. Rarely is this message passed down and even in the most sophisticated relationships, our people resort to all the old tactics only focused on their measures. Only lip service is given to shopper needs or indeed category growth. Wrong assortment, layout and promotions are the result. The shopper is always the loser!"

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 and often focused on the short-term: "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

> "I had just completed some very tough annual negotiations with one of my customers. It was a long process; they kept asking for more money, I kept telling them that they had access to everything I had. After a tough Friday, we finally put it all to bed, left friends and looked forward to growing the business. Friday afternoon, we trusted each other.
>
> Monday morning – one of my category managers announced that they were looking at a difficult volume shortfall and gave me $$$ to go back to my customer and get more activity. Can you imagine the conversation I had with that customer Monday afternoon?"

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 and 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 critical. Factors that facilitate it have been accordingly built into the Capability Model.

One manufacturer offered a case study of how this can work in practice. In a sluggish category in one market, they led a major reorganisation of assortment and merchandising. The result was a 10.0% increase in their own sales, against a category average of 3.0%. Coincidently it also led to a 20.0% increase in their main competitor's sales. They counted the project a success because it better aligned the category to shopper needs and exposed the weaknesses in their own strategies, which had previously been masked by distortions in category strategy and spending.

2. Fragmented, functionally siloed goals: For both Retailers and Manufacturers there are two quite distinctive types of organisation structures: a Functional or an Integrated structure.

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 regard for 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;

> "One of my buyer's key measures is unit item gross margin percent. I have continually presented ideas, programs and plans that significantly increase the category's total dollar sales by trading consumers up to higher ring items that the consumer desires. My buyer explained that he would rather have a slower growing category with a higher per unit gross margin percent because that's what he is evaluated on. When I countered with the fact that their Company can take total category sales increases to the bank but not a high unit gross margin percent on an item that doesn't sell, his response was that he can personally take his bonus to the bank!"

- 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 decides 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 Functional structure has these common features:

- 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 Organisational hierarchy (people who are well removed from day-to-day decisions);
- Frontline decision-makers see only partial outcomes of their actions.

> "I was recently a participant at a meeting on the 'Cost of Quality'. The premise was that supply chain disruptions, poor performance and rework add a lot of cost to the system. One speaker (a retailer) described how her company has begun charging suppliers when there is a supply chain quality issue. However, many of the merchants in her company began pushing back on her efforts to fix the quality defects – because the income from the charge backs were now imbedded in their measures and rewards system."

During interviews for this white paper, it was apparent that the Manufacturers and Retailers who are making real progress towards collaboration to serve shoppers have all adopted an Integrated structure. This is in stark contrast with the Functional structure noted above in its main features:

- Cross-functional integration of front-line decisions;
- Accountabilities that mirror enterprise goals;
- Functional goals that share a common core;
- Internal collaboration used to define priorities and resolve issues;
- Frontline decision-makers see the holistic outcome of their actions.

3. Poor goal alignment between vertical Trading Partners: In our early work on this project, consideration tended to focus on how to align profit and growth objectives, as these tend to be a fairly common starting point in goal setting. However, we soon realized that this was the wrong start point. Had we started with Shopper Satisfaction in mind, the emphasis would have more appropriately been on the question, "How can we measure Shopper Satisfaction, whilst aiming for mutual benefit between vertical trading partners?"

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

> "We moved to multi-functional teams years ago and, while it did help deliver better results, they tended to be function-to-function results. It was only recently that the customer appointed a 'mirror' team leader. Now we are beginning to discuss enterprise goals and objectives. Still a long way to go but the structure change is creating entirely different conversations."

- **sales growth** overall, for categories, for target shopper segments, and for total basket because growth will only occur if shoppers are attracted to stores and motivated to buy;
- **margin $ and %**, individual margin targets can only be achieved if category growth occurs hand-in-hand with value 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 performance indicators should represent an integrated set of KPIs pursued by category teams on both sides of the trading relationship. GS1, the worldwide Standards body, is in the process of developing "Trading Partner Performance Measures" (TPPM). These standards-based measures will provide the common language that can enable vertical trading partners to set common goals and common measures.

"I heard a presentation at a recent logistics conference. The speaker was describing how a logistics manager from a retailer was reviewing a performance scorecard with a peer from a large manufacturer who has chronic store-level out of stock problems. As they review the scorecard, they begin by arguing over a line item in the retailer's scorecard that shows the manufacturer is operating at a 25% fill rate, while the manufacturer shows that he is filling at a 100% fill rate. After much debate over whose numbers were more accurate, the two decided to look more closely at their respective scorecards. After concluding their investigation, it was determined that the DC of the manufacturer only measures fill rates based on the inventory it has on hand, not on what the customer orders. The manufacturer's supply chain managers had argued internally that their distribution center incentive plan should not be penalized because manufacturing cannot produce sufficient quantities of merchandise."

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 the operational level, choices and trade-offs are made in full knowledge of how results balance out.

Common Barriers

We asked those interviewed to outline typical barriers to effective collaboration, both in their own Behaviours and in those of their vertical trading partners. As noted earlier, the observations made by Retailers and

"We were working with a customer on an end-to-end supply chain project. We (both the retailer and manufacturer together) mapped the value chain starting with a Brand Manager launching an item to the sales person who sells it, to the buyer who purchases it, from when it is shipped from the Manufacturers warehouse all the way to the point of sale. We found that there were 27 different touch points within and between the manufacturer and the retailer; each touch point was focused against their set of numbers - rewards and recognition systems. What was "success" at one point in the chain often was a barrier in another point! While people felt they were optimising their part of the process, they often sub optimised the whole - adding cost and time. These hidden costs eventually get to the shopper."

Manufacturers are quite consistent. They include the following key issues (plus others summarised in Appendix One):

- One-dimensional, functionally siloed objectives and strategies. Within companies, individual functions are too often tasked with separate, disconnected objectives and virtually no one is focused on the prize of sustainably building shopper value. This means that, where individual functions (typically buying and account management) represent their companies at the point of contact between trading partners, functional objectives and strategies don't match, even though each company's enterprise-level goals are similar.

" We have been working with the senior leaders at our customer to drive projects that deliver significant value for both of us. These projects have included things like store design, shrink reduction, better supply chain management, etc. All these projects have had a significant ROI. While the senior leaders have been very pleased with the financial benefits and returns on these projects they have not resulted in stronger merchandising support for our brands because none of the value created makes it to the buyer's desk via their measurements or rewards systems."

- Both manufacturer and retailer brand strategies focus on their brand, rather than on enhancing category and total basket value to shoppers. This is partly a reflection of the functional silos noted above and partly due to weak methodologies. For both Manufacturers and Retailers, Brand Managers are not charged with enhancing categories (even though this should be consistent with brand success). They are rewarded for growing their brand; enhancing their brand footprint; expanding their brand presence. However, to the extent that Brand Managers fail to recognise category and consumer needs, they will be ineffective and thereby create negative disruption.

- Collaboration disrupted by protracted annual negotiations and single-issue disagreements. Trading partners clearly need to negotiate on a number of issues, and there are many reasons why such negotiations can be protracted. However, where negotiations over annual contracts or single issues are treated as a threshold for collaboration, the outcome can be a zero-sum game or worse.

As one Sales Executive put it: "These things can get silly. I intervened in one of our markets where the negotiation was hung up on personalities. It turned out that they were stuck on an issue worth only $1,000. To point out how petty (and dysfunctional) this was, I put my credit card on the table and offered to pay it myself."

During our interviews with retailers, it was clear that those who were collaborating on joint business development either did not have annual negotiations or were committed to wrapping them up quickly.

Most barriers are a consequence of misaligned or disconnected goals, poor transparency and information sharing, and a lack of trust. The New Ways of Working Together framework addresses transparency and information sharing within the Connect Our Business plank by establishing consistent KPI measurement standards. Without this connectivity of businesses, shopper satisfaction can not be delivered. However, just as important, without aligned goals and the right enabling people systems, structures, measures and rewards, the data is useless because the motivation to use it effectively is missing.

The lessons from the foregoing observations have been incorporated, along with participant views on required capabilities, to support a New Ways of Working Capability Model described in the following pages.

When one Retailer was asked, "How can you be sure you are not getting a worse deal?" they answered, "We don't need to be, since our sales and profit growth are now better with joint business planning than when we negotiated to the last Euro."

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. This is also shown graphically in Appendix Two, along with more detailed explanations.

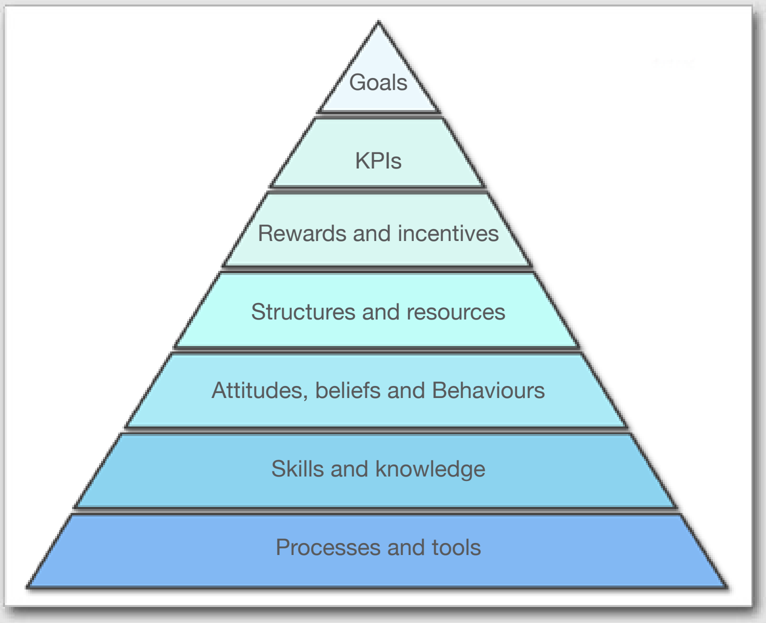
We should stress here that the model, in its conceptual form, can be adopted or adapted by both Retailers and Manufacturers. Its practical application to each will differ, however, because the respective roles and tasks will be different under several of the headings.

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 will be different for Retailers and Manufacturers.

The seven element format is proposed in order to establish a bridge between the capabilities identified with the theme of Prepare Our People for Change.

A 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 a competitive 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.

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 the key success indicator, then reward systems will need to be realigned to match. The new model has hard reward dimensions: direct linkage to KPIs; a balance of long- and short-term focus; and integrated (and perhaps weighted) outcome rewards. It also has one soft dimension: the alignment of cultural norms.

Some of the Retailers interviewed appear to have quite a strong cultural commitment to shopper satisfaction, which is evident in their corporate goals and the linkage with business strategy. Many others on both sides will need to take steps to ensure that revised KPIs are genuinely enabled by a supportive 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 brand equity.

Structures and Resources: It is not the purpose of this paper 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 underlying principles 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.

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 readiness 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.

Companies will need to assess the suitability of existing personnel in light of these considerations and be willing to introduce new role models where appropriate. Top management will also need to provide unambiguous leadership in sponsoring these new behaviours, including willingness to invest in training and coaching, if necessary. Companies that already have some demonstrated success in this regard say a strongly branded, structured program endorsed at the highest level can offer significant change momentum. Carrefour's Masse de Marge program (in which they set out a detailed decision model for joint business planning) is a good recent example of this.

Finally, all involved should recognise that embedding new Behaviours is likely to take some years and require sustained commitment from top management. This will necessitate some tolerance for failure and preparedness to openly examine lessons and make changes. Leadership by Industry participants, benchmarking and case studies (focused on demonstrating that changes to people systems can improve results), can help overcome the initial resistance to change by acknowledging strengths and recognising areas of weakness.

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 strategies that motivate shoppers may need further effort. Furthermore, some new joint processes are needed, as noted below, and training/coaching in their use will be required.

Processes and Tools: Most of the process elements listed could, in practice, be rolled into the Agreed Decision Model cell. 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.

As noted earlier, The Focus on the Consumer plank within the New Ways of Working Together framework identifies ECR Europe's best practice process called Jointly Agreed Growth (JAG). This is a comprehensive, long-term decision model that establishes a new, standard for joint commercial planning between vertical trading partners. GCI anticipates developing other complementary joint decision models in areas of collaboration such as supply chain rationalisation.

Conclusion

The New Ways of Working Together framework is an integrated roadmap that can lead to more satisfied shoppers and the elimination of waste, both of which should, ultimately produce better business results. It is important to note that it is an interdependent model:

- Focus on the Consumer will only work if there are common goals and common measures, and if there are enabling rewards and incentive systems that reinforce the right Behaviours;

- Connect our Business will only work if it is linked to a long term, shopper focused business plan; if the ability of vertical trading partners to share and use data to achieve joint goals is reinforced; or if the supply chain is shared rather than viewed as yours versus mine.

- Prepare our People will only be meaningful if shopper satisfaction is adopted as a core ideal around which goals, measures and rewards are aligned; and if a shopper-focused business plan provides clear direction to the whole organisation.

- Share our Supply Chain will only be possible if there is understanding of how every decision made has an impact on shopper satisfaction, today and for the long term; if the information we share allows end-to-end supply chain visibility and if we optimise the whole supply chain, rather than try to optimise each component and maintain siloed goals.

For years, this industry has been discussing Joint Business Planning, Collaborative Commerce and Efficient Consumer Response and data sharing. For the first time, industry leaders are committed to understanding and changing the people systems — the structures, measures and rewards and capabilities — that have slowed down our ability to meet the needs of our consumers and shoppers. This paper and subsequent work will set out to identify the key elements that either facilitate success or create barriers to the ability of vertical trading partners to develop and execute long term, shopper focused business plans. The work will provide the means to benchmark these Behaviours and capabilities within your company. It is up to us to implement the change and prepare our companies to succeed well beyond the 2016 Future Value Chain.

Appendix One
Barriers and Their Consequences

Barriers and Their Consequences

Barriers	Implications	Solutions
1. One-dimensional or single point KPIs. For example, buyers accountable for % margin only or Account Managers accountable for volume only.	■ Creates tall organisational silos where trade-offs between competing priorities (e.g. volume and profit) are too aggregated and politicised and too remote to aid day-to-day choices. ■ Account Managers may be pushing unprofitable volume or protecting unwanted items. ■ Buyers may be excluding items that enhance total profit or innovations that enhance shopper satisfaction.	■ Integrated KPIs that reflect core enterprise goals and allow trade-offs and choices between competing priorities in day-to-day decisions. ■ Create alignment between team and individual goals on one hand and enterprise-level goals on the other.
2. Manufacturer brand strategy and Retailer own label driven by brand objectives, not category and shopper needs.	■ Can produce innovation and assortment that does not anticipate category needs and does not enhance the offering to shoppers. ■ Can mean that both spend precious resources pushing unwanted items or items aimed at occupying shelf space. ■ Results in category development and merchandising strategies that aim to retrofit brands to categories. ■ The obvious self-interest displayed by these behaviours undermines trust between trading partners.	■ Introduce category-based marketing focused on consumer and shopper needs as a platform for brand and shopper strategy. ■ Ensure that only those product innovations that enhance categories (for consumers and shoppers) attract investment.
3. Protracted annual contract negotiations.	■ Get in the way of Joint Business Planning (JBP) because negotiations become a threshold for collaboration. ■ Tends to be a zero-sum game, with both sides battling over the last cent, rather than focusing on growth. ■ Reinforces adversarial relationships, with players on both sides invested in the conflict. ■ Reflects distrust by Retailers who need to be satisfied they are getting a fair deal.	■ Integrated KPIs that don't just focus on price. Manufacturer efforts to build trust, including measures to show that pricing and terms are fair. ■ Commitment on both sides to end negotiations quickly in favour of JPBs that deliver growth.

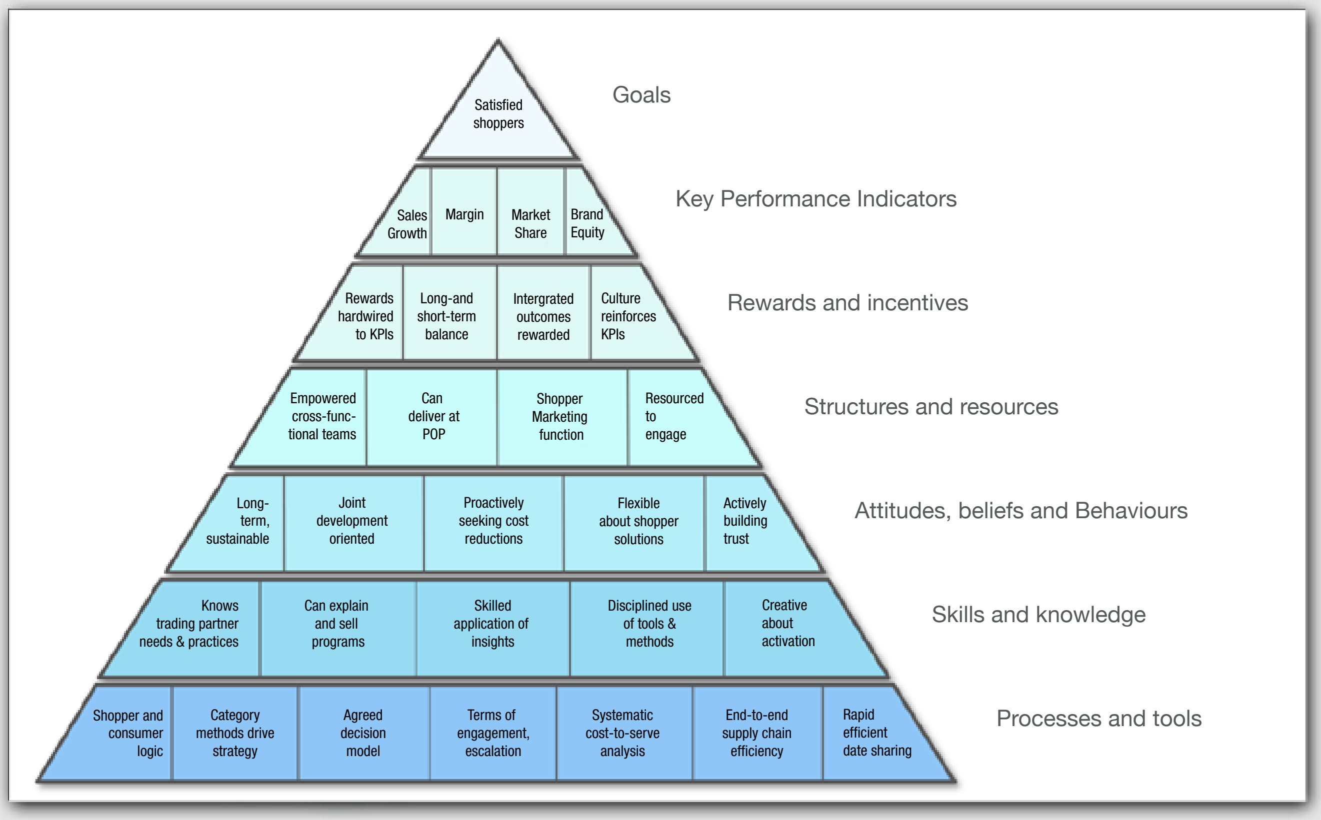
Barriers and Their Consequences

Barriers	Implications	Solutions
4. Relationships distracted from collaboration by single negative issues	▪ Impact similar to that of protracted negotiations. ▪ Symptomatic of poor escalation process and unproductive conflict	▪ Set Terms of Engagement that place value on the wider collaborative process. ▪ An effective escalation process
5. Poor Retailer compliance disciplines.	▪ Usually reflected in only partial execution of head office programs at point of purchase. ▪ Manufacturers invest heavily in programs, including advertising, only to see them poorly executed. ▪ Tends to undermine commitment to JBPs.	▪ Introduce more disciplined policy direction for programs. ▪ Align store-level incentives in cases where store autonomy is key to the Retailer's management strategy. ▪ Agree Manufacturer support activity at Point of Purchase where appropriate
6. Lack of Manufacturer price transparency	▪ Undermines trust, increases Retailers' anxiety that their competitors may be getting a better deal. ▪ Means Retailers feel the need to aggressively negotiate until they are satisfied no $ left on the table. ▪ Suspicion reinforced by evidence such as diverting in the US, caused by uneven pricing.	▪ Create price transparency mechanisms for individual trading partners
7. Lack of end-to-end logistics cost transparency	▪ Poor or unshared information on logistics costs make joint strategy on cost/efficiency improved difficult to identify ▪ Uneven principles on the notion of reducing costs to benefit shoppers resulting in constraints and inertia on large scale investments in efficiency improvements.	▪ Resolve principles for ongoing logistics cost reduction sharing that provide incentives for investment. ▪ Make logistics cost truly visible between vertical trading partners

Appendix Two

New Capability Model

The New Capability Model



Goals

Focus on satisfying shoppers: right products and a positive shopping experience. Goal shared between trading partners, used as a core ideal against which all strategy is tested.

Key Performance Indicators

Growth: Includes overall category growth and growth in target shopper segments.
Margin: Expressed as dollar and percentage margin but with preferred emphasis on the former.
Share: Should include four dimensions covering share of national category, shopper's wallet, shopper missions and category share of basket.
Equity: Is a longer-term measure of the strength of relationship with target shoppers. It is recommended that this be expressed via tracking of shopper perceptions about value and the shopping experience.

Rewards and Incentives

Rewards hardwired to KPIs: All Companies have their own remuneration philosophies; some very results-based, some not. Within the confines of such philosophies, companies need to establish the maximum possible direct connection between KPIs and rewards. For those with conditional bonuses, the connection is relatively simple. For those with emphasis on base salaries, the connection will need to be reinforced through performance reviews.
Long- and short-term balance: most recognise the need for three year development plans, yet rewards are commonly linked to short-term results. The recommendation here is for three year staging of KPIs, with rewards linked to continuity of results across the plan period.
Integrated outcomes rewarded: Even in organisations with tightly defined KPIs, people quickly learn which of them are career critical and which are not. To overcome this, the relativities between the recommended KPIs should be baked into scoring ratios or formulas. This should ensure that their integrated nature is clearly communicated.
Culture reinforces KPIs: The communications and ongoing internal dialogue surrounding this program need to reinforce the belief that soft rewards, like career opportunities, are aligned with stated KPIs.

Structure and Resources

Empowered cross-functional teams: An important dimension of integrated business management practices. The aim is to bring together the necessary skills and knowledge at the point of interface between trading partners. Teams need authority to respond quickly to opportunities, and accountability for business results.
Can deliver at Point of Purchase: For Retailers, this means genuine empowerment of their category teams to commit programs and in-store strategy plus consistency of systems to achieve high levels of compliance. For Manufacturers it means capacity to support timely execution at store level.
Shopper Marketing Function: This is given specific mention here because this expertise is new and evolving on both sides. For some it means investment in a new organisational resource plus research budgets and analysis tools to facilitate significant elements of the Skills/Knowledge and Processes/Tools noted later.
Resources to Engage: Necessary to overcome a frequently mentioned deficiency: insufficient resources to carry through developmental initiatives at category level. Clearly, the success of any Pilot will partly hinge on participants investing appropriately to make it work.

Attitudes, Beliefs and Behaviours

Long-term sustainability: Behaviour principles should emphasise the concept that trading partners are important to each other's success, and sustainability means being able to rely on mutual, long-term benefits. By definition, this means resisting the temptation to exploit each other for short-term gain. Top management on both sides will need to demonstrate low tolerance for such Behaviour.
Joint Development oriented: This will mean overt receptiveness to ideas and inputs from trading partners, and a willingness to recognise and tap into the collective expertise pool.
Proactively seeking cost reductions: Whilst the operations people on both sides (manufacturing, logistics, store operations) are typically well attuned to ongoing cost reduction efforts, commercial people are not . Since the main linkage between trading partners is managed by the latter, cost reduction has not always been a core priority for trading relations. This issue will need to be addressed in the way respective teams think about JBP.
Flexible about shopper solutions: Large corporations have inevitable, built-in rigidities resulting from the pursuit of scale and efficiency. This element calls for recognition that such behaviours can be at odds with the Shopper Satisfaction goals. Companies in both sides will need to be willing to question current practices and find ways to be more responsive to shopper needs.
Actively building trust: All acknowledge that more trust is needed if true collaboration to serve shoppers is to be achieve. This element recommends specifically putting trust on the agenda and accepting responsibility for creating if. Companies will need to examine their own conduct and eliminate behaviours that risk undermining trust with trading partners. This point emphasises the fact that trust is about us not them.

Appendix Two

Skills and Knowledge

Knows trading partner needs and practices: This element requires both sides to become more expert in the other's business. Manufacturers aregenerally better atthis for understandable reason. Effective interaction between cross-functional will be enhanced if trading partners make efforts to learn about each other.
Can explain and sell programs: Manufacturers, in particular, express the need to gain recognition and tangible benefits from the investments they make in Retailers. Both sides need to be effective in communicating their programs and priorities to the other. This calls for quite advanced consultative selling skills aimed at overcoming the risk that programs could fail, despite having merit, simply because the message was poorly sold.
Skilled application of insights: This is an evolving area of know-how for both Retailers and Manufacturers. Its importance should be self evident, given the core focus on shoppers. However, insights alone are not useful unless those involved are capable of efficiently applying them to create shopper solutions. This process will be aided by an agreed new decision model that embeds the need for shopper insights.
Disciplined use of tools and methods: An agreed set of joint methods will form the basic language of collaboration. For this to work smoothly, training of those involved will be necessary. This should aim to develop consistency of understanding about how those tools and methods are applied and trust in the outputs they produce.
Creative about activation: Traditional trading relationships between account managers, buyers and merchandising managers are not noted for their creativity. Companies will need to find ways to supplement category teams with the kind of ability normally associated with brand management or creative third party agencies. Of course some will already have this in the form of an advanced shopper marketing function. Others will need to upgrade this capability. The capability is particularly important if Trading Partners are to succeed in working together to create value-adding programs for shoppers.

Processes and Tools

Shopper and consumer logic: This element emphasises the need for methodology to embed shopper and consumer rationale in all decisions about business development. The logic flow will start with target shopper segments and use insights about shopper and consumer need-states as a critical input to category solutions.
Category methods drive strategy: Often, the marketing process within Manufacturers starts with brands, not categories. Such companies may have a wealth of consumer knowledge, but this tends to be brand-centric. A category-based approach starts with consumer and shopper needs, to which brand strategy is then aligned. The resulting brand and innovation initiatives are more likely to be compatible with category strategy at Retailer level.
New decision model: This will bring together the various elements of data, insight, analysis tools, conceptual modeling tools and decision principles into a well understood whole, where timing and roles of key players are defined and agreed.
Terms of engagement and escalation: These must set out the principles governing how trading partners will interact. The aim is to provide more certainty as a basis for trust, and to ensure that individual personalities or situations are not permitted to derail the larger, constructive relationship between two enterprises. In particular, the escalation procedure will provide top management on both sides with ultimate control over the quality and effectiveness of interaction between teams.
Systematic cost-to-serve analysis: The options for improved logistics efficiency are not easily known due to lack of data transparency. Improvements in ongoing visibility in this area are a necessary element of the constant search for improved shelf replenishment and cost reduction.
End-to-end supply chain efficiency: Building on visibility of cost data, trading partners need to engage in understanding how the supply chain works as a total system for efficiently replenishing shelves and work jointly on ways to optimise it.
Rapid, efficient data sharing: This element is already a major undertaking as part of the Connect our Business Information plank and is mentioned here for the sake of completeness.
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The following GCI member organisations have contributed to the New Ways of Working Together program and to this White Paper.

About the Global Commerce Initiative (GCI)

The Global Commerce Initiative (GCI) was established in October 1999 as a voluntary platform. Its mission is to lead global value chain collaboration through the identification of business needs and the implementation of best practices and standards to serve consumers better, faster and at less cost.

It is a network created by the member companies and sponsors to simplify global commerce and link the value chains to improve consumer value.

GCI operates through an Executive Board composed of senior representatives of more than 45 companies drawn equally from manufacturing and retailing that do business across continents or via global supply chains. It works closely with eight partner organisations — the regional ECR Initiatives and VICS, four trade associations (AIM, CIES, GMA and EMI and the standards organisation GS1 and GS1US — representing more that 1 million companies in the world.

For more information about the Global Commerce Initiative and questions raised by this report, please contact:

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About Childs Davidson Limited

Childs Davidson Limited is a specialist consulting firm, well known in the fast moving consumer goods industry for its thought leadership in marketing and sales capability development, trade spend productivity strategies, benchmarking and development of commercial strategy. We create value by challenging existing norms and showing the way forward to world class practices and performance.

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