OLIVER WYMAN

MORE TRUST WINS MORE VALUE

CREATING JOINT VALUE WITH SUPPLIERS CAN UNLOCK BILLIONS

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Retail business models are under pressure as they adapt to cost inflation, online and discount competitors, and rapidly changing customer needs. Every part of the business is under increased scrutiny, including the retailer's relationship with suppliers. As a result, some retailers have taken to squeezing their suppliers harder. While this can yield short-term benefit, we are increasingly seeing a trend for retailers to work with suppliers to create new sources of value and deliver higher, more sustained savings.

This report describes the steps to move supplier relationships away from a "them and us" mind-set, unlocking bigger savings by focusing on improving the efficiency of the supplier-retailer system, redesigning it for mutual benefit.

Around the world, we are supporting retailers that are conducting detailed reviews of their processes with a few key suppliers and tapping into savings of millions of dollars. Scaled up to market level, the benefits could be very significant indeed (Exhibit 1).

In these new models, the interactions between retailer and supplier change fundamentally, from two people on either side meeting face-to-face just twice a year, to a structure that incorporates dozens of departments and encourages regular engagement and innovation across common strategic objectives – all based on respect, trust, and joint innovation. We call this approach "joint value creation".

To make this transition, there are three key steps:

1. Select the right suppliers to innovate with.
2. Build a respectful, productive relationship based on trust.
3. Innovate together on new and improved processes.

Exhibit 1: Scope of savings available from supplier collaborations in fresh categories

COUNTRY	POTENTIAL SAVINGS AVAILABLE	
	Dollars (billions)	**Local currency (billions)**
China	0.9-1.3	¥5.9-8.9
France	1.5-2.3	€1.4-2.1
Germany	1.3 - 2.0	€1.2–1.8
UK	1.7 - 2.5	£1.4 - 2.1
USA	6.8 - 10.2	$6.8-10.2

Source: Planet Retail and Oliver Wyman analysis

STEP 1: SELECT THE RIGHT SUPPLIERS TO INNOVATE WITH

It's important to point out that not all suppliers are right for the joint value creation approach and, for the majority of medium and smaller suppliers, it is right to continue with the status quo of tough negotiations and limited interactions. To identify those suppliers who could be innovation partners, leading companies use a framework (like the one in Exhibit 2) to review the relationship.

Exhibit 2: A framework for identifying the right suppliers for joint value creation

DIMENSION	SCORE	RATIONALE
Priorities: To what degree does the supplier see joint value creation as a priority?	LOW 1 2 3 4 5 HIGH	Without a strong business incentive behind the program with high stakes, the right resources may not be allocated on both sides.
Strategic potential: How important will this supplier be in this market in the future?	LOW 1 2 3 4 5 HIGH	Markets will evolve so it is important to recognize and invest in relationships that could yield advantages like exclusive access to products and services in the future.
Trust: What level of trust is there among senior management?	LOW 1 2 3 4 5 HIGH	Trust is critical to the success of a joint initiative. Senior management at both parties need to buy in to the change and act as role models for the required change in mind-set. Both parties need to see the venture as an opportunity and not a new way to get profit out of each other.

STEP 2: BUILD A RESPECTFUL, PRODUCTIVE RELATIONSHIP BASED ON TRUST

The objective for any project of this kind should be to build sustained competitive advantage. This will only happen if, early on, the retailer and supplier commit to a multiple-year journey built around a defined, respectful, and ongoing framework of interactions that builds trust over time. In successful transformations, there are both process changes and attitude changes on all sides.

Both parties must have a shared target. This is often complex to agree: the target is not typically just about price and volume but rather market share, customer satisfaction, product quality and innovation, supply chain efficiency, and other broader issues. Examples could include:

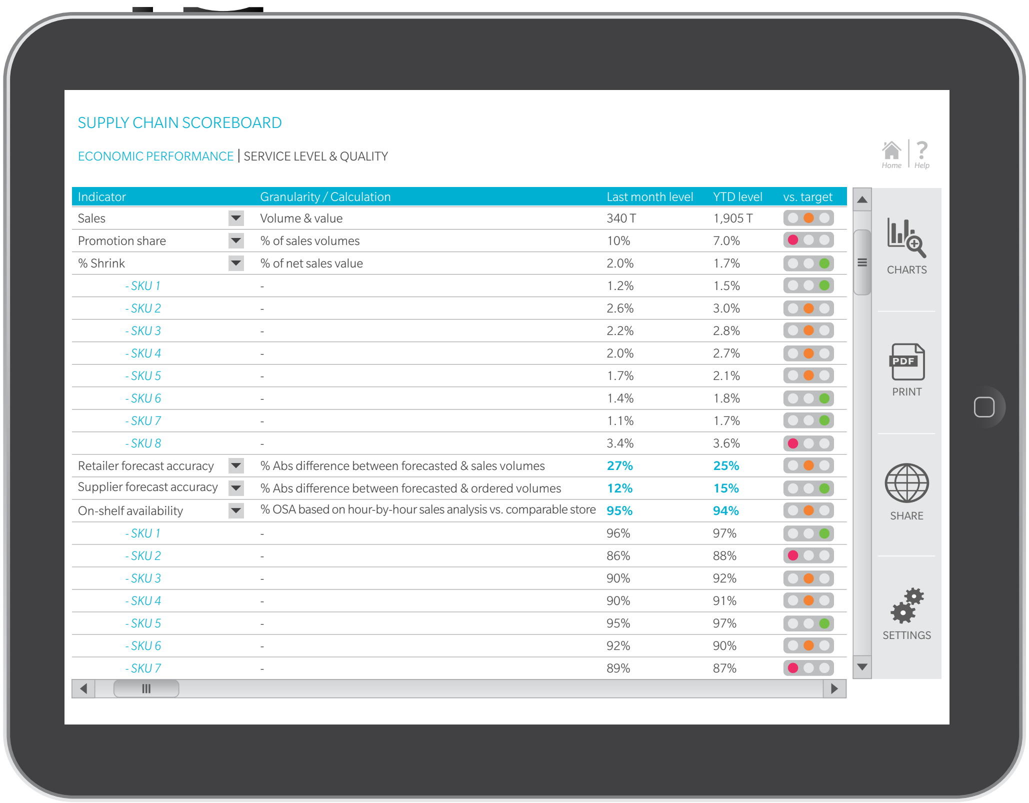
- "We want to expand our joint market share by 200 basis points within three years."
- "Every year we will jointly launch a flagship innovation."
- "We aim to reduce the end-to-end supply chain process by 24 hours for fresh products."

With such a target, both sides work more closely together, for example by setting up joint teams around product development, forecasting or logistics management, or at the very least increasing the frequency of joint meetings. In our experience, the partners should aim for the top management to meet at least twice a year, and operational teams (including product development, supply chain, quality, and forecasting) should meet at least monthly.

The objective in all of these meetings is ensuring progress on the joint projects is tracked, new collaboration options are identified and investigated, and day-to-day issues are solved promptly. However, increasing meeting frequency is pointless if both companies are not sharing more of the relevant data and are not aligned on which KPIs to track and how to calculate them. A powerful approach can be to create joint scoreboards that collate live data from retailer and supplier and are used to help top management and operational teams on both sides look at exactly the same information (Exhibit 3).

The companies with the most advanced programs often change the incentives schemes of their employees to align with the KPIs defined for the joint relationship.
Once employees from both parties are incentivized to build a joint success story, the positive outcomes of the programs often increase two- or three-fold.

Exhibit 3: An illustrative screenshot of a supply chain scoreboard to support data sharing



Indicator	Granularity / Calculation	Last month level	YTD level	vs. target
Sales	Volume & value	340 T	1,905 T	
Promotion share	% of sales volumes	10%	7.0%	
% Shrink	% of net sales value	2.0%	1.7%	
- SKU 1	-	1.2%	1.5%	
- SKU 2	-	2.6%	3.0%	
- SKU 3	-	2.2%	2.8%	
- SKU 4	-	2.0%	2.7%	
- SKU 5	-	1.7%	2.1%	
- SKU 6	-	1.4%	1.8%	
- SKU 7	-	1.1%	1.7%	
- SKU 8	-	3.4%	3.6%	
Retailer forecast accuracy	% Abs difference between forecasted & sales volumes	**27%**	**25%**	
Supplier forecast accuracy	% Abs difference between forecasted & ordered volumes	**12%**	**15%**	
On-shelf availability	% OSA based on hour-by-hour sales analysis vs. comparable store	**95%**	**94%**	
- SKU 1	-	96%	97%	
- SKU 2	-	86%	88%	
- SKU 3	-	90%	92%	
- SKU 4	-	90%	91%	
- SKU 5	-	95%	97%	
- SKU 6	-	92%	90%	
- SKU 7	-	89%	87%	

STEP 3: INNOVATE TOGETHER ON NEW AND IMPROVED PROCESSES

By challenging existing processes together, both the retailer and the supplier will benefit. Based on recent experience, we see product development, forecasting, task de-duplication, and supply chain as processes where collaboration can significantly and rapidly benefit the bottom line.

PRODUCT DEVELOPMENT

Across a product's development life cycle, retailers and suppliers will interact on numerous occasions. However, typically the processes in place at these points have not been designed collaboratively nor do they operate jointly.

In contrast, Exhibit 4 shows how a joint approach could work. By asking the question "How do we increase the joint returns from this new product?" retailers and suppliers will end up sharing insights and data to improve the end-to-end process: increasing the attractiveness of the new products actually developed, cutting back on the number of approval loops delivering a shorter time to market and less uncertainty, and enabling better ordering and production planning once the product is launched. Joint product development is often focused on own-label brands – a key differentiator for most retailers.

FORECASTING

The quality of forecasting is essential to ensuring products are delivered to the retailer in the right quantities, at the right time, and at the lowest cost possible to the supplier. However, so often this doesn't happen. In some retailers, we've seen examples where two different teams prepared two different forecasts, neither of which had been shared with the supplier.

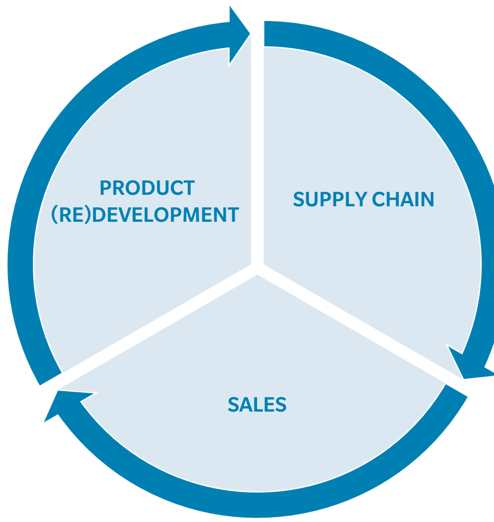
A first step is often to institute a simple process of cross-checking forecasts across all parties; this process enables numbers to be aligned, refined, and improved. The best-in-class collaborations go a step further and ensure a common forecast across retailer and supplier, all based on the same raw data inputs. As a result, products are available when and where customers want them, to the quality they expect. Costs from waste and lost sales go down, and suppliers can deliver lower production cost because of lower order volatility and more forward planning.

DUPLICATE TASKS

It might be surprising how much time can be spent on tasks that both retailer and supplier carry out, such as harmonizing data, following through ordering processes, and duplicating quality control checks. Eliminating these allows both parties to invest more time in activities that can directly improve the bottom line.

It is often not complicated to carry out this simplification. For example, ordering forms could be submitted and processed online, rather than across two systems each requiring a manual input. Similarly, the same quality tests might be run when products leave the factory and again when they arrive at a retailer's distribution center but, if the manufacturer and retailer were to share the results, one set of checks could simply cease.

Exhibit 4: Product life cycle with joint collaboration



PRODUCT (RE)DEVELOPMENT	SUPPLY CHAIN	SALES
Retailer		
• "I provide insights on what I want my own-brand products to be like." • "I share data on category gaps to identify opportunities." • "I encourage my category directors to share their strategies."	• "I monitor stock levels and predict when replenishment will be needed." • "I monitor sell-by dates to manage waste."	• "I'm best placed to define product placement." • "I drive regular marketing activities in-store."
Supplier		
• "I analyze the data to identify gaps in the offer that we could fill." • "I define and develop a product concept in line with the category strategy and market dynamics." • "I share information around estimated cost, shelf price, and margins."	• "Using shared data I'm best placed to lead on production scheduling and operations." • "I look at ways of moving my products from factory to distribution center or store faster."	• "I analyze the data to help the retailer to have a better product assortment." • "I participate in in-store marketing activities."
Likely outcome		
• New product launches are successful in driving increased sales and margins for both parties – Development costs are reduced on the supplier side – Retailer benefits from more exclusive products fitting exactly its needs	• The end-to-end supply chain process length and its cost are, overall, reduced • Fresher products are available on the retailer shelves, on-shelf availability is increased, and shrink is reduced	• Store layouts and shelf planograms are redesigned together, underperforming SKUs are cut • Supplier acts like an external advisor and category captain

SUPPLY CHAIN

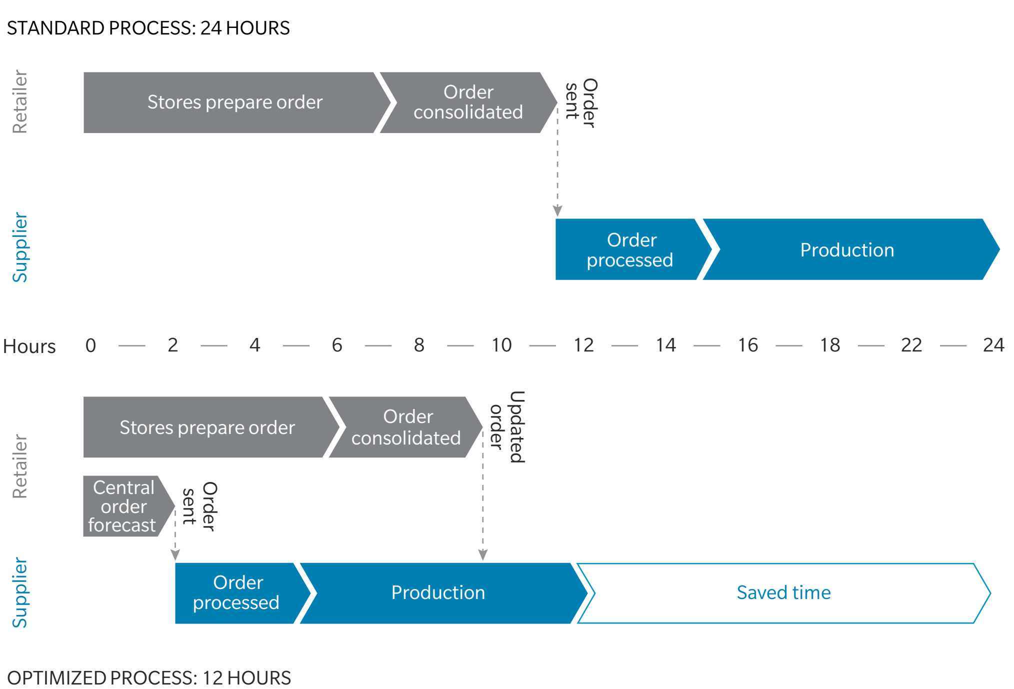
Supply chain processes are often inherited from historical ways of working, making them ripe for optimization, particularly in fresh categories where small amounts of lost time radically affect shelf life.

The most dramatic supply chain transformations we have seen have focused around ensuring fresher products, less shrink, and improved sales by:

- Using less busy delivery windows.
- Finding alternative delivery routes.
- Sharing delivery routes with other suppliers or retailers.
- Using third-party logistics providers.
- Centralizing steps such as packing and picking.
- Sharing data.

Having an understanding of which pieces of information are critical at each stage of the supply chain makes it very easy to speed up the most important steps. We often see retailers holding off sharing information with suppliers until they are confident of its exact accuracy. In fact, by sharing even vaguely accurate forecasts with suppliers, retailers allow manufacturers to start production while they refine their exact order, allowing for less delay in the end-to-end process (Exhibit 5).

Exhibit 5: Step changing supply chain time efficiency for fresh products



CASE STUDY 1

SUPPLY CHAIN OPTIMIZATION FOR ULTRA-FRESH PRODUCTS

CONTEXT

A grocery retailer in Eastern Europe wanted to generate a step change in its cost position and quality levels in fresh, and came to us to support a transformation of their relationship with a key supplier of fresh produce.

WHAT WE DID

First we mapped each step of the existing joint processes, including pain points and opportunities for improvement. Using this approach, the retailer and the supplier then identified four joint ambitions:

1. Begin a new era of operational and strategic collaboration, jointly driving the business as partners.
2. Deliver a step change in the speed of the joint supply chain to claim back over 24 hours in product shelf life.
3. Jointly improve the accuracy of order forecasting to enable cost-efficient forecast-based production.
4. Begin a continuous improvement program focused on product quality and shelf life.

We established regular meetings of the retailer's and supplier's strategy boards, operations committees, and forecasting groups – to shift interactions away from the negotiation teams – and fed them new, shared KPIs.

Instead of multiple forecasts from both parties, we established two shared forecasts and created alignment on the approach taken to forecasting and ordering. A monthly review of the promotions pipeline served to increase the notice the supplier got for promotional items.

RESULTS

The new structure and team meetings brought all hands on deck for developing category strategies and analyzing market trends. The more joined-up approach made it easier to work together to create a faster supply chain that saved money by delivering less wastage, and made money by increasing the availability of fresh products that customers wanted to buy.

We reduced forecast errors from more than 30 percent to within less than 10 percent. By jointly reviewing the promotions pipeline, special offers became more successful because the products were available where they were supposed to be, at the right time, in the right quantities.

CASE STUDY 2

REDUCING TIME-TO-MARKET OF OWN-BRAND PRODUCTS BY 30 PERCENT

CONTEXT

A European grocer identified that a slow product development cycle for own-brand products was a strategic weakness. Together with one of its key suppliers for own-brand products, the retailer aimed to make this process faster, more efficient, and better able to respond to changing consumer demands.

WHAT WE DID

We examined the end-to-end product development process across both companies, identifying many redundancies such as data duplication and unnecessary product revisions due to poor communication at the start of the process. In addition, we helped the companies build capabilities and processes that allowed for new development projects to be accelerated, paused, or cancelled depending on the changing needs of the retailer and customers.

RESULT

The product development process became much more nimble and able to respond to changing priorities. The average time to get a new own-brand product on shelves reduced by 30 percent, with priority projects moving even faster.

CONCLUDING REMARKS

In most markets, the pressure on retailers and suppliers is increasing. However, around the world, billions of benefits are still untapped because shared processes between retailers and suppliers are poorly optimized and no action is being taken to improve the efficiency of the overall system.

Unlocking these savings requires radically changing the working relationship between retailers and suppliers by forgetting about combative negotiations and putting aside old habits and rivalries to instead focus on generating more value together. Indeed, the biggest challenge is changing the culture from arguing over scraps to generating high-value, collaborative project work.

Our joint approach to creating value can dramatically improve innovation speed, sales, promotions performance, and overall supply chain efficiency to the benefit of both retailers and suppliers. In mature markets, such joint programs usually lead to an increase of gross margin of 5 to 10 percent for both parties – a huge prize indeed.

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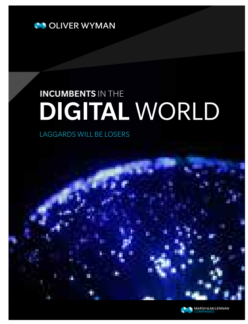

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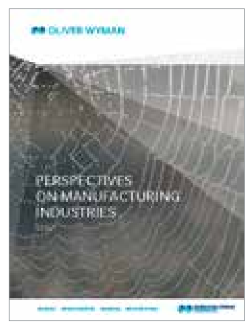

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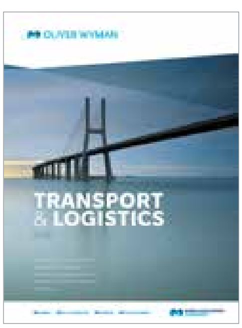

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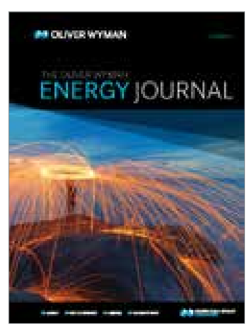

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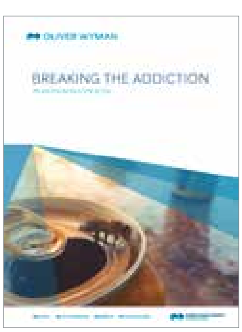

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