

Retailer-Vendor Collaboration – A Roadmap

There has been talk recently about retailers collaborating with each other in their supply chains to reduce costs and help the fledgling organized retail industry in India survive the current downturn. While this is certainly a step in the right direction, it raises another interesting question. What is the state of the retailer-supplier relationship in India? This is a relationship that has to exist by necessity and can provide significant benefits if managed well. Sadly, there is a lot to be desired when it comes to how retailers and vendors are dealing with each other today. The relationship is largely transactional, based on zero-sum negotiations and even adversarial. For the large FMCG companies, modern retailers are still a new phenomenon that cannot be ignored, but lower in priority than the wholesale channel that supplies to the over 10 million kirana stores in the country. The situation is similar in apparel, consumer durables and specialty products. This article will first build the case for retailer-vendor collaboration and then suggest a roadmap for retailers to follow in India.

Get Your Act Together!

Most retailers are struggling with a lack of trust and commitment when it comes to dealing with their vendors. Constant price negotiation and haggling over promotional support and marketing budgets have provided only minor gains at the cost of a damaged relationship that prevents bigger collaborative gains. Vendors, in turn are giving retailers a raw deal with missed deliveries and low fill rates (percentage of items that were ordered that are actually fulfilled on time). While global benchmarks for fill-rates are 90% and above, they languish in the 60-70% range in India. This is the case with not just the smaller vendors, but also the big multinational companies, who are sometimes the bigger culprits. Many tend to blame this on the uncertain infrastructure in the Indian supply chain, but most are using this to hide their internal inefficiencies and lack of collaboration with supply chain partners. Retailers and vendors should work together to fix this situation, as stock unavailability is very expensive, either as lost demand or as excess inventory that would be required to buffer the inefficiency.

Vendor Collaboration

Vendor collaboration as a discipline was popularized in the 1980s through the ECR (Efficient Consumer Response) movement and later the CPFR (Collaborative Planning Forecasting and Replenishment) initiative by VICS, which helped formalize this and push vendors and retailers to collaborate on demand and order information. The rationale is that when vendors and retailers give each other visibility into their supply chains, the entire value chain becomes more agile and lean, reducing process inefficiency and excess inventory in the system. For example, Best Buy, the largest electronics retailer in the world, collaborates with all of its top vendors including Samsung and Sony to share order and demand information for the foreseeable future. These numbers are updated on a daily basis and are shared using an online tool. At any point in time, both vendor and retailer can see what the other party's outlook is. For example, if Best Buy is planning a promotion, it will share this information with Sony in terms of quantitative forecasts and a qualitative description of the plan. Sony in turn will use this information to come up with its own forecasts and adjust its manufacturing plans. The final order is then based on

a jointly agreed number. Doing this not only helps Sony better plan its own operations, but also reduces potential delays, out-of-stocks and expedites which are all very expensive for both vendor and retailer. The case for this in India is even stronger. With the Indian customer slowly shifting to organized retail, it becomes imperative for retailer and vendor to share whatever information they have on customer demand, sales and inventory to ensure mutual profitability. It pays to share and grow together than create silos and stifle a nascent industry.

The Next Level

The challenge lies in attitudes and incentives. Traditionally, there is not a culture of sharing information between supply chain partners. This comes out of distrust and fear. While confidentiality may be a genuine concern, the benefits to be gained by information sharing between partners are tremendous and with adequate safeguards, collaboration can lead to several win-win situations. Category Management takes this collaboration to the next level, where the retailer makes the vendor part of its own decision-making processes. A category captain (typically a vendor with the largest share of the category) can not only provide deep insights to the retailer about the customer in that category, but also help it grow by making the end customer the priority. Vendors can help retailers design more targeted promotions and even joint product design initiatives that address the customer's needs.

An example of this is Heinz, which worked with 7-Eleven (the largest convenience store chain in the world) to understand its customer. One of the findings from Heinz was that the ketchup customer at 7-Eleven was more likely to be male than at a Walmart or a Kroger. Further study revealed that this customer often purchased the ketchup for game parties, where a bunch of guys (and occasionally girls) got together to watch a football game or a basketball game at someone's home. The ketchup was being consumed with fries, pizza, nachos and other 'game' food. Also consumed with these were mustard and mayonnaise. Hence germinated the idea of a game pack, where Heinz created a combo-pack consisting of smaller sized bottles of ketchup, mustard and mayonnaise specially designed to be had with game food, sold together in one pack, so it can be conveniently consumed at a game party or get-together. The packaging and messaging was very specific for this purpose. Sales for the category went up and both retailer and vendor benefited from it. Such insights are more likely to come when the retailer and vendor collaborate closely, thus benefiting both counterparts.

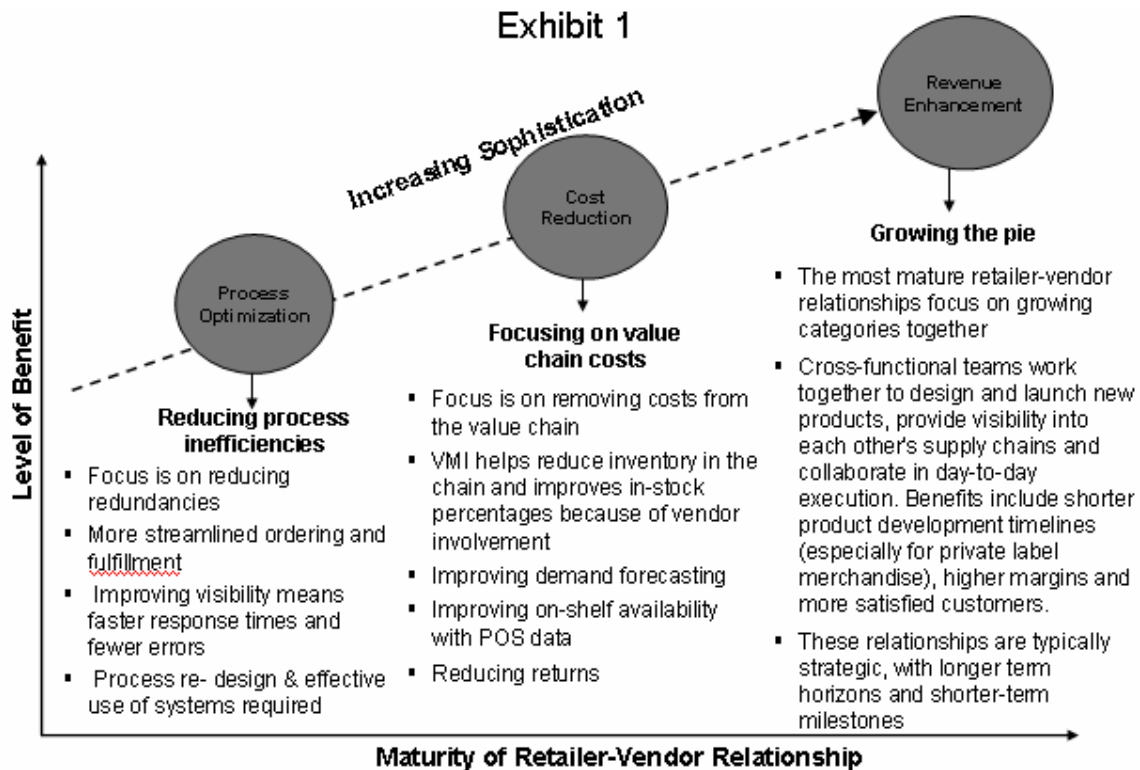
A Roadmap

Exhibit 1 shows a roadmap that can act as a guide for retailers to collaborate with their vendors. Quick wins can be achieved through process optimization. This focuses on reducing redundancies in the retailer-vendor interaction, such as multiple handoffs in the ordering and fulfillment processes. Benefits can be had in merchandising and sourcing productivity if planning timelines are shared and back-up plans are put into place to account for breakdowns.

The next stage of collaboration involves sharing information such as forecasts, inventory and sales. This requires trust and commitment from both sides to provide and use this information and share the gains. This takes some upfront investment in terms of

restructuring processes and systems. The benefits are primarily in the form of cost savings, but better service levels will also lead to more loyal customers and higher sales.

Finally, a mature retailer-vendor relationship can lead to both revenue enhancement and cost savings through a sustained long-term effort around category management, product design initiatives and visibility into supply chains. Here the retailer and vendor work as partners to achieve benefits for both organizations while focusing on the end-customer.



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