September 16th 2004 Key note speech

“A retrospective and outlook after 10 years of ECR Europe”

Some 10 years ago AIM (Association des Industries de Marque - European Brands Association) in Brussels started some discussions with their members regarding the question if Europe should hang on the American development of ECR. CocaCola had made research in Europe among grocery industry and trade which was published and discussed with great interest. The multinational and global cooperations like Nestlé, Unilever, Procter & Gamble, Colgate-Palmolive and Johnson & Johnson were quite keen on the idea based on their output from US. Grocery trade adapted more of a wait and see policy, but Ahold were quite keen, followed by Promodes and in a later stage Metro and Tesco. So in midyear 1994 ECR Europe Executive Board was founded with as many producers as retailers and two co-chairs one from each side in order to illustrate and manifest that this was a mutual project. Coca-Cola and Ahold senior managers took the chairs and the work started with monthly meetings.

It took almost a full year before the strategy and rule of the game could be settled. The American “brand” ECR and full name Efficient Consumer Response was accepted with some hesitation. More important was the concept and credo which was formulated after some group exercise in the board: “working together to fulfil consumers wishes better, faster and at less cost”. We had some doubts about emphasizing the consumer so strongly, but our US friends convinced us. Some board members, however, felt that ECR was more of a struggle for power between trade and producers than a real consumer oriented concept. But the final conclusion was ECR focusing on the consumer and for trade and producers to work together.

Multinational consultants saw a future income source and offered ECR studies and research on a free of charge basis. The very first pilot study was a European Value Chain Analysis in order to find out the potential of savings and improvements which was estimated to be around 5.7 % of consumer value with full application of ECR concept in the whole chain - suppliers, producers, retailers. The discussion in the board was how should producers and the trade share this gigantic amount. The conclusion was quite simple based on the market economy – the producer and retailer who could benefit from the improvement in ECR could use the amount for price-cutting, promotion, advertising, service or other activities competing with those who did not apply ECR components.

After the first conference in Geneva in 1996 ECR Europe has arranged a yearly conference in Europe - Amsterdam, Hamburg, Paris, Turino, Glasgow, Barcelona, Berlin and Bruxelles with in total some 20 000 participants. On top of that national ECR conferences have taken place in most European countries. Meters of books with instructions, best cases, case studies and articles in trade journals have been published. In 20 countries in Europe ECR boards and organisations have been established. Websites and ECR journals have been issued not to forget the famous International Commerce Review ECR Journal and the ECR Research Symposium by ECR Academia Partnership. The list could be extended at length but in a few words this must have been the most comprehensive and widespread movement in the grocery industry in history.

This was the good story, now comes the problems and the weakness of ECR. Ask your neighbours, friends, politicians, journalists, professors, students and businessmen in other sectors and disciplines than grocery business what ECR stands for. Very few if any have heard about it. So what, one could say. The name of the game is to improve the collaboration between the trade and the industry to the benefit of the consumers. But a widely spread knowledge and penetration of ECR in the society with the general public, business people, journalists, politicians, academia etc is always a benefit to a movement like this.

Another more serious problem is the penetration among those employees in the grocery trade and industry who should know about ECR, but who have not the faintest ideas about what it stands for despite the fact that their companies are involved in some parts of ECR activities. Only the key people who have participated in the conferences, studied the documents, been members in local ECR boards know what it stands for. But thousands of subordinates and employees in trade as well as in industry should have a better knowledge. In Sweden and Finland we have published an ABC-book with facts about ECR with this group as a target. But not until management undertake the role of being tutors and project leaders can we succeed. Every big change starts at the top of the company and the Board, the CEO and the management team share a great responsibility to spread the knowledge of ECR potentials.

Another, perhaps smaller, but still relevant problem are those abbreviations, used in ECR language. I have asked managers who should have a fair knowledge of what the three letters like VCA, EDI, B2B, B2C, EUL, CAO, CRP, DSD, JIT, KPI, POS etc stand for. Very few know and there are many more abbreviations than this. In Sweden and Finland we have published a glossary with explanation. If the bosses do not know what the letters stand for, how can we expect other employees to know and understand.

A very important problem and hinder for further ECR exploitation is cost saving programs in trade as well as in industry. Public companies fight for good numbers every quarter and private companies may have difficulties with the liquidity. Mind you, small private grocery traders have profit level around 1 % ROS (return on sales) with fluctuations during the year and sometimes strained liquidity. To start up ECR projects can be costly in the beginning and profit may come late so you need a stable profit to have the stamina to fulfil your plans.

Some opponents to ECR say that this is only for the big ones – the multinational companies, the giant retailer chains etc. One of our former ECR co-chairs Anthony Burgman, chairman of Unilever once said - ECR publish in conferences, papers, best practise and website all our experiences made by the giant producers and retail chains. They have made the costly and difficult starting work which every small producer, sales manager, logistic manager, brands manager and retailer can apply. It is not so much a question about money and personal resources, but rather a question about a more intelligent work. Despite the fact that smaller local companies may have a lack of people with competence this problem should be possible to solve.

A final problem from my experience is the struggle for power. In the early days the multinational producers considered the retailers to be a distribution channel to the benefit of the producer. He knew the market, he had the brand, he had the production facilities, he made the advertising, the promotion and sold his products to the individual retailer and/or group of retailers. He had the best educated managers while retailers often had an inferior education. Those days are gone. The retailers and chains have the same competence and ability as the industry used to have. They buy the products, they store them, they sell them, they know their customers and they know what products the consumers want and at what price, they have private labels. So who has the power now? ECR stands for partnership, but the customer is always right. Who will win the game? If this battle results in a one-sided biased fight for better conditions or elimination of products and producers ECR has failed.

Let us now see what the outlook can be for ECR in the near future …

The following comments are conclusions based on undisclosed research from senior consultants and business leaders. I have interviewed both representatives from grocery trade and grocery industry. One important element in ECR that will survive and expand is category management. It combines best brands, top market share and best profits as survival factors. Manufacturers should have massive advertising, innovation, consumer focus, product segmentation and low cost production, i.e. high productivity. The retailers should maximise profits per product category with advertising, innovation, consumer focus and segmentation. But the benefits are not automatic. There must be a viable consumer satisfaction for retail profitability. The supplier must be structured to work with category management and the retailer must have an organisation in place. The synergy between the two parts will improve the result enormously, provided the traditional structure with buyers and sellers change over to category managers acting interactively with team members. Product adaption and new product development for building profitability will improve and the category team really earns profit through collaboration. Low price will not be the only question – good quality and supplier reliability like in Aldi will guarantee straight forward contractual conditions and large pre-determined volumes making it possible for the supplier to adapt to his market segment. (German suppliers systematically state that they “enjoy selling to Aldi”). Finally a good team interaction can also improve animation and atmosphere in the stores with among others client centred demand segments by meal situations and functions. The share of category management in retailing could grow dramatically in all superstores.

The second area, which will continue to have great impact on the success of ECR, is logistic in the retail supply chain. No doubt this is the source of retailer economies for the years to come. But it is also a pre-requisite to shopper satisfaction. We are currently living through a logistics IT revolution even if the “physical” revolution is still a few years away. Cost of filling shelves will be more complex and can represent anywhere from 7 % to 25 % of sales value. 7-12 % for hard discounters, 10-14 % for mainstream retailers, 17-25 % for longer distances to smaller outlets. Of these amounts one quarter can be attributable just to the cost of unloading at the store, unpacking, disposing of packaging and putting on the shelf. Big suppliers to big stores will be most effective through direct continuous replenishment. And stock outs, which is the ultimate retail failure, will be cut down. Stock – out levels above 9 % for groceries are unacceptable and if the supplier provides a 99 % service level to the retailer this translates into 90 % on the shelves within the retailer’s structures, a supplier said. It needs in other words two to dance and EDI in the future with internet enables dedicated retailers to use supplier links. Finally the benefits and brakes for logistics collaboration are increased sales, lower supply chain costs, improved customer service levels, improved retailer – supplier relationships. The brakes are fear of loss of control, negative experiences in the past, fear of the unknown and luck of trust. Logistics savings and value creation will force retailer and supplier to work together.

Now let us see what the retailers should do and what the suppliers should do to create value in whatever ways they can. The opportunities are definitely there …

It is essential for retailers to target segments of consumer demand. Consumer perception of the nature of different store formats is part of segmentation. Discount stores, hypermarkets, supermarkets have as we know different formats. An important issue is fascia and image. The fascia must say something coherent to consumers if any form of loyalty is to be built up. This will be a function of history, format and offer. A fascia must communicate values which are relevant to local consumer demand and should therefore be promoted like a brand. Category management will be even more crucial for the future of all retailers on the basis of demand segment profitability. This necessitates collaboration with suppliers in market planning and forecasting, information flows and logistics planning. As said above it demands commitment from the retailer and for many retailers a mind-set. A good source is to study best practice from ECR. Important is to be demand and not product driven where some suppliers must learn a lesson. Good collaboration can even create in store theatralisation and atmosphere. The aim is to set the scene so that the shopper finds the right combination of optimal product marketing mix and the retail mix in which products are presented. The rest is showbiz and opportunity. Finally logistics is where the largest savings are to be made by retailers. Progress requires collaboration with major suppliers. Cross-docking, transportation and haul management will be essential. In fact it demands collaboration not only with retailer and one supplier, but with several suppliers for the full benefit. But not only that, EDI systems and B2B are not enough, the whole spectrum of data sync will be used. Retailers must keep a permanent watch on technological development. Introduction of major new techniques will give serious advantages to those who benefit from them first. ECR will offer a vast range of assisting aids. If not applied by the retailer it will increasingly cut him off from best practise.

And now recommendations for suppliers …

Since retailers increasingly “brand” their fascias they will be looking for individualised products, promotion and service from the producers. It is in other words essential that wherever possible suppliers should produce a range of variations on their basic products without loosing the economies of scale. Expert teams for each major retailer, simplify the retailer’s access to your company. Suppliers with the ability and resources should develop departmental planogrammes with the aim of increasing turnover and profit per m2. Keep ahead of the retailer in terms of category management establishing a durable non-conflictual relationship. Fit into each retailer’s logistics and EDI structure. Focus on defending leading brand positions and continuous innovation. There is a risk, however, that retailers dislike and fear powerful suppliers whose brands are so strong that partnership will not be evenly matched. To avoid that show goodwill and choose carefully interface representatives. Logistics improvements within the retailer’s organisation will probably have to be supplier-led. However, not even the largest can introduce structural changes alone. Major suppliers could therefore work together in conjunction with transport, packaging and logistic specialists. Much of that already recommended by ECR. The supplier of the future must either have the volumes and market position that makes him unavoidable for retailers or have a very obvious unique selling proposition.

One leading businessman, representing the producers, regretted that last years have had more and more confrontation between the suppliers and the trade despite ECR. Will it be more severe before it will be better? The revolution of the trade with centralised buying, low price stores, international establishing, private label explosion, struggle for improved profit seem to be the basic reasons for the shift of power and attitude. Is this tendency a threat or a possibility for ECR? The trade seems to win the battle. Advertising and other marketing efforts are directed towards the trade and not to the end consumer. In other words less branding and theme advertising, more temporary price reductions and trade support. Will this trend hamper ECR? Or will the suppliers associations and the trade associations merge into a brand new ECR-association? Will industry and trade work together more and more in order to fulfil the consumers wish? These basic questions need to be discussed in the near future.

In summary I have first given a short historical description of how ECR started ten years ago in Europe, followed by pros and cons both for the retailer and the producer. In my perspective ECR has been a success story of three reasons – conferences with 20.000 participants, learning via a.o. ECR Academia and global standards via Global Commerce Initiative. My look into the future shows to me the importance of a closer collaboration between trade and producers particularly in category management and logistics. ECR will survive, probably for another decade.

Thanks for listening.