

International  
Commerce  
Review

ECR Europe's  
International  
Commerce  
Institute

10 Years of  
New  
Knowledge

Digest of a decade of  
breakthrough articles on  
business strategy,  
shopper marketing  
and supply chain  
in the Consumer  
Goods Business

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# 10 Years of New Knowledge

**This digest is presented to you by the International Commerce Institute of ECR Europe. It contains a selection of summaries of breakthrough articles that have previously been published in the International Commerce Review: ECR Journal.**

Since the year 2000, the 'Review' has attempted to bring insight and spawn the creation of New Knowledge amongst thought leaders in both academia and the business community around the world. The Review's Editorial Board is a roll-call of the most admired supply chain, marketing and retail academics today. They, along with executive contributors from leading companies, use the Review as a medium through which to bring you the best of their research and thought leadership.

We are deeply indebted to all of the contributors that have utilised their time, brains, knowledge, and experience to develop the breakthrough insights reflected on the following pages. Additionally, we are proud that several of the generated insights are the results of research supported by the ICI-Unilever Research Grant.

The selection of articles in this booklet attempts to give a balanced overview of potential solutions to challenges facing our businesses today. The editors realize that the – very condensed – summaries don't do full justice to the original articles and their authors. We therefore take the liberty to suggest the interested reader to download full articles from the website of the International Commerce Institute: <http://www.ecr-institute.org>.

The International Commerce Institute is ECR Europe's long-term commitment to address behavioural and knowledge development in order to reap the benefits of ECR implementation. The International Commerce Institute is deeply committed to striving for continuous improvement towards the vision of 'working together to serve the consumer better, faster, and at less cost'.

The mission of the International Commerce Institute is to bring about a behavioural change in relationships among thousands of Consumer Goods practitioners by promoting new knowledge development, joint value creation through shared learning, and the implementation of ECR best practices. For an overview of the Institute's activities, please see <http://www.ecr-institute.org>.

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# Taking Responsibility

extracts from a speech given by Paul Polman, CEO of Unilever

**To earn permission to grow, companies need to create a new contract with consumers. They need a new business model that decouples growth from negative environmental impacts.**

Currently, we face a huge amount of debt across the world. Governments, companies and individuals have to de-leverage. That's going to take years to work through, which means years of slow economic growth. Consumers are suffering as a result. As business leaders, we have to look these realities in the eye, accepting that institutions have failed, as have many aspects of the system as we knew it. More than ever, consumers are looking for trust. In the face of information overload, they're more likely than ever to turn to trusted names and solutions.

At Unilever, our conclusion is that we need a new contract with the consumer, and that's why we have launched a new vision for our company. First and foremost, this vision is based on growth. As a company, we need to grow. Consumers, too, want growth and a better life. To say that we have to 'consume less' is a very simplistic position. People have the right to a better life, and companies need to grow to stay in business.

However, 'growth' needs to be redefined. We need to grow while also making the world a better place in a sustainable way. That's a completely different business model, one that is capable of reconciling the need for growth with the need to care for the world we live in. Accordingly, our new vision at Unilever sets out that we want to double in size while, at the same time, reducing our environmental impact – in other words, decouple growth from environmental impact.

It's essential that we provide clear answers on how we're going to achieve this double aim, as only then will consumers grant us permission to grow. Given that brands are about trust, there has never been a better time to focus on brand-building. We are investing in the future because you cannot shrink your way to greatness.

Sustainability goals are in no way incompatible with growth. In fact, they're absolutely compatible, as they can spur us on to cut costs and drive efficiency. It's in the interest of every business to get back to a little sanity and responsibility. If we look at our industry, there's no doubt that the entire value chain has to be built on mutual benefit and trust: on the development of long-term relationships, not short-term transactions.

However, to fulfil these goals, we have to work together to explain and deliver on this 'new normal'. If we look at Unilever's carbon footprint, for example, about 30% of it is accounted for by raw materials and about 70% by consumer use and disposal. Unilever's operations, distribution and retail account for about 3%. It's clear that the only way we can tackle this issue is by working together, applying a consistent focus and vision across the supply chain. Now long-term relationships are more important than short-term pressures. We have to find better ways of working together and aligning objectives.

The biggest barrier is the space between our two ears – attitude and trust, the willingness to work together and a realisation that we should first seek to understand before being understood.

For this reason, the new Consumer Goods Forum is set to play a crucial role as *the* global consumer body. A very important creation, its significance lies in the fact that its member organisations touch over six billion lives, giving us the opportunity to change lives for the better. It makes me realize how fortunate we are to be working in the consumer goods industry. It's a real industry, providing jobs and being responsible for creating value in a concrete, tangible form.

Paul Polman  
is the  
Chief Executive  
Officer of  
Unilever.

There are many ways we can touch peoples' lives for the better. The Consumer Goods Forum has several strategic pillars: emerging trends, sustainability, health and wellness, operational excellence and knowledge sharing. None of these issues can be addressed successfully by one organisation working in isolation, and all call for closer alignment and greater co-operation. So, to put it succinctly, we need to take shared responsibility. In this industry, we're in a position to make the world a better place.

*This is a preview from an edited version of the speech given by Unilever CEO Paul Polman to the Progressive Management Programme, February 2010. Do you want to learn more about Paul Polman's vision? The full article will be published in the International Commerce Review Summer 2010.*



# Simply Connect the Dots

by Daniel T. Jones

**The consumer goods industry stands at the threshold of three huge opportunities. If approached in the right way – systematically and as part of a single, integrated vision – these opportunities will allow us to release cash, reduce capital expenditures, and achieve sustainable growth, all at the same time.**

What are these three opportunities?

**Customer Information:** Retailers and their suppliers have invested vast sums of money and effort into systems designed to control and optimize processes and improve efficiency. Yet performance, measured from the customer's point of view, remains poor. In the future, there is no reason why consumers shouldn't be able to tell retailers in advance what their replenishment and "variation" plans are – thereby making it much easier for us to plan operations.

**Sustainability:** Historically, we measured the financial costs of producing and distributing a product without factoring in such externalities as social or environmental costs. For decades we worked hard to optimize the performance of system components as a factory, a warehouse, or a store. The counterintuitive effect has been to increase inefficiencies and waste across the system as a whole. Sustainability becomes a core operating requirement. Environmental impacts do not respect corporate or functional boundaries. Hence, there is only one way of rising to the sustainability challenge, and that's via an end-to-end review of the entire supply chain by all parties, working together with common goals and understandings.

**Customer Delight:** We are emerging from the era when the customer was a stranger and so "just in case" was the only possible approach. We believed that batch production made economic sense because it delivered economies of scale and reduced unit costs. But "just in case" means also that we often end up investing heavily in production, distribution, and communication that customers neither want nor need. A "just in case" mind-set results in a lot of waste, and batch production creates waste by producing too much or too little.

All three problem areas are manifestations of the same underlying cause, so all can be addressed simultaneously by a single strategic approach: by meeting exact customer needs precisely via *customer-driven compressed* supply chains. Doing so will depend on better use of information coming from customers via relationships that are much more trusting. Compressing the supply chain will subsequently cut costs, reduce waste, and generate the flexible operations needed to meet customer needs precisely. Reduced waste is a natural

by-product of this approach. The important point is this: *We now know how to do this. All that's needed now is to connect the dots.*

**Three improvement efforts are needed:** The **first** one is real leadership. If products flow through the supply chain without obstacles, interruptions, or delay, then costs fall while quality and the customer's experience improve. This requires the organization's leadership to walk through and *map* the *entire* supply chain, while observing where all of the obstacles and delays occur – and then to pick away at them in a disciplined manner. This is not the same as reducing waste or cutting costs. Waste reduction is a by-product of flow, but flow is not a necessary consequence of waste reduction. After a while, it's possible to measure the gap: the cash that can be freed up and the environmental benefits that can be delivered. Ultimately, there is growth that can be achieved by better customer service. **Second**, true change will require that we work across internal and interorganizational boundaries. We need “value stream managers” whose job it is to oversee the value stream from end-to-end. The **third** factor is: ‘the devil's always in the details’. The operational implications need to be worked through down to the finest details of each process. This will require an accompanying change in metrics. The metrics of batch production reinforce and recreate errors every time they are used.

When we take a step back to view the entire industry with all its nuances, there is never a single easy answer. That's why we need to take this journey one step at a time, building teams that include sales, planning, operations, and logistics for one product category at a time, and even then focusing on only one or two core products.

The core of this new opportunity revolves around a new vision or goal for the industry: exactly meeting consumer requirements via customer-driven compressed supply chains. This is a truly massive and all-encompassing agenda, requiring significant changes of every player in the supply chain. It's enough to keep us busy for at least the next twenty years, even if we make significant progress each step of the way. But this is not only an operational, technical challenge. It's a management challenge. It requires managers to change how they think and what they measure... and how they manage. If we want this industry to change successfully, we must begin with ourselves.

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# Innovating Innovation: The Case of Seven-Eleven Japan

by Hirofumi Matsuo and Susumu Ogawa

**Seven-Eleven Japan (SEJ) is one of the most successful and admired retailers in the world. Recently, it struck out on a different path than most retailers. Instead of differentiating itself by prioritizing the development of private label products, it has worked with branded suppliers to create new products that are sold exclusively through Seven-Eleven stores.**

At the same time, it has taken a broader view of innovation, to include supply chain and go-to-market processes as well as product attributes. By adopting this approach, SEJ has been able to improve customer perceptions of choice and range whilst actually reducing the number of SKUs it stocks, thereby increasing sales and reducing costs at the same time.

By shifting its innovation focus to collaboration with branded goods suppliers, SEJ has persuaded suppliers to innovate not only the content of their brands but the context too – how the product is made, distributed and sold.

While competitors have rushed to copy and catch up to SEJ's best practices, SEJ itself has been forging ahead on another front. SEJ is now emerging as a pioneering innovator... in the field of innovation.

SEJ's innovative approach to innovation is unlike most other retailers, who have focused on the development of private brand products. SEJ collaborates with national brand manufacturers to develop new products that are sold under the manufacturers' brand names – though only at SEJ stores. At the same time, SEJ's approach to innovation goes beyond the product itself to include the product's supply chain and sales processes. This combination of approaches means that SEJ can differentiate its customer offering in ways which its competitors find very hard to copy. At the same time, SEJ's ability to offer customers a continuous stream of unique new products feeds other aspects of its strategy. To achieve its high level of original product introductions, SEJ innovates at the level of product attributes, product supply chains and sales processes all at the same time.

**Content innovation:** This is the traditional focus of innovation and revolves around product attributes such as taste, flavor, appearance, texture, healthy and safe ingredients, packaging, processing method, or a combination of all of these. Intangible and emotional elements related to brand, fashion, a sense of social status, quality, health, and safety are

also important. On this front, SEJ collaborates with national brand manufacturers to make innovative manufacturer-branded products available exclusively in its stores.

**Supply chain innovation:** While they are important from an operational point of view, most supply chain features usually remain invisible to the customer. At SEJ, however, they are often elevated to form part of the product concept that is visible to the customer. For example, SEJ is unique among Japanese convenience stores to sell 'oven-fresh bread'. The supply of oven-fresh bread depends on a supply and distribution network built specifically for SEJ by one of its manufacturing suppliers. Competing retailers cannot simply procure oven-fresh bread from suppliers. To match SEJ on this front, they will need to develop another relationship with another manufacturer prepared to make similar long-term investments in a complete set of supply chain and business processes.

**Sales process innovation:** Sales process innovation includes all the merchandizing that consumers perceive at stores, including facings of products, product line-up, promotional displays, sales staff's service, store appearance, and sales channel. Sales process innovation is usually driven by manufacturers. Key considerations include facings (sales of a product tend to increase almost proportionally to the number of product facings on the shelf) and customer perceptions of choice and variety.

Retailers elsewhere have much to learn from these ways by which SEJ is pushing the frontiers of innovation. Manufacturers have something to learn, too. Manufacturers traditionally focus on innovating the *content* of their brands. But SEJ is showing that context – how the product is made, distributed and sold – can also help manufacturers build their brands. Together the two sides are opening up a new chapter in collaborative innovation.

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## Are Your Staffing Levels Correct?

by Marshall L. Fisher, Jayanth Krishnan and Serguei Netessine

**Most retailers could significantly boost their revenue simply by linking planned staffing levels to store traffic rather than to revenue. After the cost of goods sold, expenses related to hiring, training, and employing store labour constitute by far the largest component of a retailer's costs, often accounting for 10% to 20% of sales and for more than 50% of operating costs.**

Matching store staffing levels to customer demand – store traffic – is key to maximizing the sales potential of the store. Because store traffic levels vary by time of year, day of the week, and time of day, creating a store staffing plan that reflects actual customer demand is difficult. There may also be problems with implementation. This research suggests that better scheduling of staff working hours could increase basket sizes by 1.8%, with a further 2.4% uplift from better implementation of these schedules.

Two factors drive effective staff scheduling: the plan itself and the detailed execution of the plan. The research investigated two simple hypotheses: that the financial performance of a retail store is positively associated with a) the quality of labour planning and with b) how well this plan is executed. We tested these hypotheses in a three-year study of 311 stores in a large retail chain.

We estimate that if managers were able to reduce staff planning mismatches by 50%, the resulting revenue uplift would be 1.8% of the current chain level of revenue. From a practical point of view, it appears that improving labour planning mainly requires switching from forecasted sales to forecasted traffic, which should be relatively straightforward to do. Many retailers use sales rather than traffic to determine staffing levels in their stores. However, staffing policies affect sales, so using sales as the metric to determine staffing levels is a bit circular.

The effects of better execution are even greater: eliminating 50% of execution mismatches creates an *additional* revenue uplift of 2.4%. However, it is much harder to advise on specific policies to improve store labour execution because of the many practical issues associated with managing the seasonal hiring of full-time employees. We also conjecture that labour execution practices are largely driven by the store manager's experience and biases. Thus, our measure of execution mismatches might be indicative of the general

effectiveness of store managers, and a store manager's effectiveness affects many aspects of retail store operations that are not directly related to store labour.

To sum up, our analysis suggests that stores that better schedule full-time employees to match traffic patterns in the store can achieve significantly larger basket values. However, we believe that this analysis is quite conservative and is likely to underestimate potential improvements. Current best practices suggest that traffic should be matched with labour in hourly or even shorter time intervals. This makes great sense to us: depending on store location and product profile, different stores will experience increased traffic at different points of time throughout the day. Also, as the management of the company we studied pointed out, labour scheduling should be different for different departments within the store if they experience different traffic levels. We believe that, if such data becomes available, it is likely that even higher revenue lifts can be realized.

We also demonstrate the importance of better execution of the planned labour deployment schedule. Our results suggest that a 2.4% revenue lift can be realized by modestly improving execution. Exactly what specific actions store managers can take to improve execution is an area needing further study. The combined improvement from better planning and better execution is a 4.2% revenue increase, and this is a very large number in an industry where comparable store sales increases usually run in the low single digits. It thus appears that the old adage of having "the right product at the right time and place" could be true of employees as well: staffing levels should be aligned with store traffic.

This research has been supported by the ICI-Unilever Research Grant.

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# Empowering the New Consumer

based on a speech made by Andy Bond, CEO of ASDA

The digital era is bringing about a radical transfer of power in favour of ordinary people. People are more connected than ever before, and they're putting their trust in themselves and each other. They are undermining traditional hierarchies and questioning the role of experts. Businesses operating in this environment can't cheat, can't 'spin', and can't hide. Within seconds, customers can compare notes, demolish price structures, destroy marketing strategies, and tell the world to shop elsewhere.

How should businesses adapt to this new environment? By handing control to the man in the street, empowering consumers to dictate how the company does business and the products it sells – by revolutionizing its decision-making processes. At ASDA, initiatives at hand mark the beginning of a long-term transformation: a business strategy to embrace customers as core decision makers.

We're now entering a next phase of business evolution, which we're calling 'democratic consumerism'. There's no doubt we're seeing the dawn of a new age. In this phase, companies must invite customers into the hearts of their businesses, where consumers dictate the way we do business and the products we sell. New self-organizing structures are emerging throughout the Internet as people cut out the middleman and run their own banks, football clubs, businesses, forums, support groups, and even campaigns. Consumers are no longer content for decisions to be made exclusively by politicians, chief executives, and bankers. The consumer's clamour is "We've lost control and we must get it back". They're demanding to be drawn into the process, to be involved, to be empowered.

Democratic consumerism has emerged from the confluence of two trends: the digital explosion and the "trust vacuum". It is a new model in which business is run by the consumer and for the consumer, transforming the way we operate. It means working with customers so that we no longer shape their lives – instead, they shape the way our business is run for them. At ASDA, we want to be at the forefront of this new, defining era. Our aim is to put customers at the heart of our business in a way that's never been done before on this scale. Right now, we are pursuing three new initiatives that symbolize how we intend to engage with these newly empowered consumers. First, we have built up a community of 18,000 regular ASDA shoppers. Every week we seek their views on everything from new product ranges in our stores to events happening around the world. Our second area of focus

is trust. The biggest fallout from the crisis of the past year has been the fundamental breakdown and collapse of public trust. People have lost faith in the traditional holders of influence and power; they feel let down by the political system and have little or no confidence in our politicians or political parties. A similar picture could easily be painted of banks and businesses. I am personally convinced that the only route to rebuilding trust is increased transparency. Only through drawing our customers into the process and by being genuinely transparent will we be able to regain their trust.

The third element of democratic consumerism is harnessing ideas to drive innovation. The past year has seen hard times breed ingenuity and creativity. Our plan is to reward customers who come up with clever ways of saving money for us – not with a gift voucher or a free basket of shopping, but with hard cash. Early next year we will launch a program that rewards the customer who has the Brightest Idea to save us money. If her suggestion is implemented, then she will be rewarded with up to 5% of the savings. Looking forward, I think our role as a successful business is to be an “idea factory”, a company that thrives on translating people’s ideas – regardless of where they come from – into action.

In the modern democratic world, the most valuable thing a customer can give you is their loyalty. But this can’t be bought with plastic points or money-off vouchers – it must be earned.

This is why I firmly believe the path to success is to become more open and transparent. By actively involving customers in every aspect of what we do and showing how we do things, we want ASDA to become a leader in transparency. Through transparency we will rebuild people’s trust in big business. With their trust comes their loyalty.

Andy Bond  
is the  
Chief Executive  
Officer of  
ASDA.

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# Why Fairness Matters

by Ludo Van der Heyden and Thomas Limberg

**There is a demonstrable link between ‘fair process’ and improved organizational performance. Fair processes are essential for anyone wanting to build successful, collaborative working arrangements. This article identifies what companies need to do to operationalize fair processes. It also discusses obstacles to implementation.**

Good fair process management leads to a radically new view of leadership that goes way beyond communication. One key finding of the research is that fairness has at least two aspects: fairness in *outcomes* and fairness in the *processes* followed to reach these outcomes. People are much more prepared to accept ‘unfair’ outcomes if they feel that the process that led to these outcomes was fair. Even more strongly, people are far more likely to reject ‘fair’ outcomes if they feel that the process that generated these outcomes was unfair. Accepting that fair processes are key to superior performance involves letting go of ‘managing by results’. Managers cannot ‘manage by results’ and manage fairly at the same time.

The ideal ‘fair management process’ has five main steps:

**1. Seeing, engaging and framing.** Framing is about defining the agenda to which management ought to devote its attention. To frame the debate properly we must learn to see better: people ask to see from their leaders issues and solutions that others do not see. But the best way to do this is by seeing jointly and by engaging people: ask them what they see; what they think.

**2. Exploring and eliminating options.** Once the main issues are identified, there are usually differing views as to how best tackle them. To many experienced managers, exploring alternative options is a frustrating waste of time; to the team, this is the creative and fun part. Again, if the team comes up with a solution, implementation is greatly facilitated, for the team will always be more committed to its own solution than one imposed from outside. The job of the manager at this stage is not to be a strong advocate of his own opinions. His role here is to be an impartial judge, choosing the best decision out of the many different options discussed. If consensus arises, he does not even need to argue, he only needs to agree.

**3. Deciding, explaining and setting expectations.** People who feel their intelligence is not being respected tend to respond reciprocally. But expectation setting brings with it another, crucial, dimension. It is where fair *process* expands to generate fair *outcomes*. By clarifying expectations up-front

– about what we are going to do, how we are going to do it, and who will get what benefits from doing it – the expectation setting process not only gives all concerned their due respect, it pre-empts the often bitter recriminations that tend to break out when people start arguing about ‘fair shares’ of the cake.

In all of these three steps, reliance on outside consultants to advise managers ‘behind the backs of’ staff is an almost sure-fire way of making the process seem unfair from the staff point of view.

**4. Acting and executing.** Once expectations have been set, any failure to actually commit to and carry out the decision risks being seen as some sort of betrayal: you have broken your promises. This is why, contrary to how many managers see it, fair process actually *requires* and depends on resolute, disciplined action. One particularly insidious (and common) practice here is the attempt to go behind peoples’ backs to overturn decisions before or while they are being implemented. The fair process approach to such manoeuvres is “No time for re-discussion here. You should have raised this before. If you are still worried about it when we have finished, you can raise it again at the review stage”.

**5. Evaluating, learning and adapting.** There is nothing more likely to inflame peoples’ sense of unfairness than if a mistake has clearly been made yet the ‘powers that be’ refuse to recognize this fact or do anything to rectify the situation. ‘Results’ may have been achieved this time round, but peoples’ willingness to commit to achieving future results may be severely undermined. If mistakes have been committed by management, then continued collaboration with employees requires that these mistakes are admitted.

Fair process demonstrates ‘good intentions’: while factories make products, it is fair process that ‘makes’ trust. And, as we all know, without trust effective collaboration is impossible.

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# How Effective is Category Management?

by Stephen J. Hoch and John J. Pomerantz

**The research investigated the key drivers of effective category management and how those drivers depend on the role of the category in the retail portfolio. It was based on data from 19 food categories sold in 106 major supermarket chains in the US. Findings can help manufacturers better allocate their scarce marketing resources across retailers and categories to the marketing actions that have the biggest impact on a category's performance, and can also help the retailer to reallocate its resources across categories to improve its overall market position.**

Categories were divided by two key criteria, frequency of purchase and penetration, resulting in four category roles according to a simple four-box matrix: "staples" (high freq. / high pen.); "niches" (high freq. / low pen.); "variety enhancers" (low freq. / high pen.); and "fill-ins" ( low freq. / low pen.).

Although lower prices, more promotion, and larger assortments generally improve performance in all categories, the critical drivers of performance systematically vary depending on the role the category plays in the portfolio of the retailer and the consumer.

Four key insights can be drawn:

- 1) Merchandising variables play a significant role in affecting category fair share indices. Reductions in the breadth (number of brands) and depth (number of SKUs in terms of size, pack type, flavour) of assortment may meet with resistance in many product categories due to their positive impact on category performance. Retailers should be more accepting of assortment reductions in staples, where reductions are unlikely to be noticed as much as in niches, variety enhancers and fill-ins.
- 2) Conventional wisdom suggests that retailers rely on national brand assortment to build store traffic (and hence category volume). Results suggest, however, that a retailer's store brand can play a key role in increasing primary demand for the category, even to the extent of overcoming the lower revenues that may arise from switching of consumers from higher priced national brands to lower priced store brands. Private labels are more likely to build store-traffic and hence category volume in staple categories. These US-centric results may, however, not generalise to other geographical retail markets.

3) A lower category price plays an important role in increasing retailer unit category sales, and to some extent dollar revenues, in variety enhancer and niche categories. While we expected price to also matter in staple categories, data suggest that regular price elasticities are low in staples, as competing retailers offer similar prices in these important traffic-building categories. In contrast, small in-store discounts in the form of temporary price reductions (TPRs) improve performance only in staples. In niches (and to some degree in variety enhancers and fill-ins) TPRs have no impact on unit sales and significant negative impact on dollar revenue (and likely on profits, too). This suggests retailers are just giving away margin.

4) The analysis supports the contention that advertised promotions help build store and hence category traffic, while 'display' influences category volume by leading to opportunistic in-store purchasing. Advertised promotions are more effective in traffic building for staple categories and, to some extent, for niches and variety enhancers. Displayed promotions enhance category volume more effectively in low visibility fill-in categories. Price promotions, without any display or feature support, are mainly effective in high-traffic staples and variety enhancers, where they can increase volume by causing opportunistic in-store purchasing.

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# Rising to the Challenge of Out-of-Stocks

by Thomas Gruen and Daniel Corsten

**This analysis of 52 OOS studies worldwide shows that, broadly speaking, 70 to 75 per cent of OOSs are a direct result of retail store ordering and forecasting practices and shelf re-stocking practices.**

When the responsibility for OOS is divided into its major components, we get the following approximate general groupings:

- Retail store ordering and forecasting causes (about 50 per cent of OOS)
- Retail store shelving and replenishment practices (about 25 per cent of OOS)
- Combined upstream causes, i.e., category planning or upstream replenishment (about 25 per cent of OOS)

The data of more than 71,000 consumers surveyed show an increasing willingness of customers – when confronted with an OOS situation – to seek those items at an alternative outlet. Depending on the product category, when confronted with an OOS situation, 21 to 43 per cent of consumers will make that purchase at another store, and another seven to 25 per cent will not buy the item at all. The studies suggest that retailers are likely to lose almost one-half of the intended purchases when a consumer is confronted with an OOS situation. This loss does not include the impact of substituting, which is generally towards a cheaper substitute.

The cost of OOS to the retailers is substantial. Our findings show that a typical retailer loses up to four per cent of sales due to having items OOS, which translates into an earnings per share loss up to \$0.012 (1.2 cents) for the average firm in the grocery retailing sector – where the average earnings per share is about \$0.25 (25 cents) per year.

- First, all of the studies examined point to a common concern. OOS has been, is, and will continue to be a problem. The aggregate extent we found of 8.3 per cent continues to (and should) raise alarms throughout the FMCG industry.
- Second, OOS is costly. While the total costs to the supply chain have not been investigated, we found that worldwide, average sales loss due to OOS is 3.9 per cent. However, category sales losses vary dramatically from 2.1 per cent to 4.5 per cent.
- Third, not all OOS are the same. A slow-moving item which is OOS will be less costly to the store than a fast-moving item. Similarly, consumer substitution varies extensively among categories, affecting the retailer and manufacturer to different degrees.

- Fourth, duration of OOS is important. While techniques for measuring the duration of OOS are fairly new, the impact of long-term OOS problems impacts not only the sales of the item, but also the likely potential of a consumer to switch stores.
- Fifth, most of the responsibility for lowering OOS rests in the retail store. Unfortunately, manufacturers have placed their resources towards lowering OOS on solving supply chain problems. This focus will need to shift if the problem of OOS is to be effectively addressed.
- Sixth, it is important to understand the limits of projections based on the findings of this research. The data were not collected in such a way that macroeconomic projections of the total cost to the industry can be confidently projected from these findings. However, any retailer can utilise the findings here to use as a benchmark comparison when addressing OOS items.
- Seventh, as we examined consumers across the world, we found that customers are indeed localised in their choices. However, when their choice is taken away through an item being OOS, consumers behave in a similar manner globally.

Altogether, improving availability is imperative but comes at a price. Reducing OOS requires initiatives that cut across functional boundaries and, often, a fundamental rethink of retailer processes. Thus, we were not surprised that some of the retailers and suppliers did not follow through with actions after having measured the extent of OOS. However, we believe most retailers have not reached the threshold where it will cost them more not to reduce the incidence than it will cost them to invest in solutions. OOS remains a major issue for not only the retailers, but also for all parties in the supply chain. As many retailers begin to address OOS with the newer, technologically sophisticated solutions, they are setting new standards. Consumers will soon expect these standards to be met as the level required to earn their business.

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# Momentum Strategy for Efficient Growth: When the Sumo Meets the Surfer

by Jean-Claude Larréché

**Research into the advertising spends, financial and stock market performance of 119 leading consumer goods and services companies over a twenty year period yields very surprising results.**

Companies that increased their advertising spending relative to sales kept their stock prices in line with the Dow Jones Index. Companies merely maintaining advertising spending relative to sales lagged the Dow Jones badly. But companies reducing their ad-spend relative to sales bounded ahead. They *outperformed* the market in a spectacular fashion, delivering shareholder value 80 per cent above the Dow Jones average.

Over recent years consumer goods manufacturers and retailers have struggled to sustain profitable growth in core 'mature' markets. It is becoming increasingly clear that, in order to cope with growth and profitability challenges, we need not only to overhaul industry *supply* chains; we need a *demand*-chain transformation. Companies that succeed in transforming the demand side of their businesses will leave their competitors trailing in their wake.

Momentum. Everybody talks about it. Markets, products, politicians, even sports teams are claimed to have it – until, that is, they lose it. Time and time again, in the real world, the actual business impact of apparently similar marketing campaigns diverges dramatically. Are such contrasting fortunes just luck of the draw: 'you win some, you lose some'? Our research answers this question with a definitive No. Some companies' marketing initiatives generate outstanding returns again and again, consistently over long periods of time. Others underperform equally consistently over long periods of time, with equally dramatic effects on their stock market performance.

Our research uncovered two types of marketing spend. The first relies on *compensating tactics* that push mediocre products at customers and that compensate for poor underlying value. The second type of marketing acts as a *sales accelerator* – simply facilitating the promotion of a product that already has a momentum of its own because it is so popular.

Compensating marketers find themselves under constant pressure to throw 'a little extra' at the deal to sweeten it: additional features here, new looks there, a free gift later. To reduce the risk of losing the business, they offer more – just in case. But these 'little extras' cost money. And time. And attention. And, almost by definition, they are not what customers really need: when customers really want these extras, they are prepared to pay for them.

Momentum marketers know exactly what the customer wants and offer them no less... and no more. Because they don't have to invest funds offering little extras, they generate higher sales at lower cost. This strategy of 'less is more' is what creates momentum.

Momentum starts with a compelling insight into customers' needs and priorities. This is the obvious and natural starting point for all marketing yet (once again) surprisingly few companies work through its full implications. However, the real value of customer insight doesn't lie solely in what it tells us to do. It lies just as much in what it tells us *not* to do. A truly compelling customer insight allows marketers to do two things at the same time. It allows them to focus their attention on what they really need to do to create a compelling offer that 'flies off the shelves', almost of its own accord. It also tells them what they do *not* need to worry about – the things they don't need to do. After all, if marketers are already offering their customers compelling value, they don't need those 'little extras' any more. Crucially, the money (and time, and attention) they save from not compensating for poor value offers can now be reinvested in creating offers that really zing. This is the real value of superior customer insight. Identifying customer needs and wishes is just the first step. Left at this, it does not translate into superior economics. It's the next 'less is more' step that really matters: continually diverting and refocusing corporate resources away from non-value adding activities towards value adding activities, to **deliver more from less**. This is the economic foundation of business momentum. And this is how and why firms with momentum display such exceptional profitable growth.

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Momentum strategy requires leadership: the ability to focus the organization's resources, in a disciplined way, on placing more systematic emphasis on the customer, on achieving more for less rather than relying on compensatory tactics. The ability to apply these principles across all stakeholders is the highest form of momentum leadership as displayed over long periods of time by great CEOs, including Sam Walton, Richard Branson, Michael Dell, or Steve Jobs.

This article is based on the author's recent book *The Momentum Effect: How to Ignite Exceptional Growth*, Wharton School Publishing, 2008.

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# The Power of Planned Uncertainty

by David R. Bell, Daniel Corsten and George Knox

**It is conventional wisdom in the grocery industry that a high proportion of purchasing decisions are unplanned. Some writers claim that fully 60 to 70 per cent of purchases are unplanned. This 70 per cent figure is cited so often that it has become something of an urban legend. Partly as a result of this, in-store marketing budgets are growing rapidly.**

Given the perceived importance of unplanned purchases, it's strange that the industry has a relatively poor understanding of its real incidence and drivers. One factor is terminological confusion. Another reason is the difficulty of acquiring appropriate and robust data. Neither scanning nor panel data – the basis of most retail research nowadays – tell us anything about shopper intentions, so gaining an insight into unplanned purchasing requires specific (and expensive) research. Our research tackles these issues.

With the support of Unilever, we studied a representative sample of shoppers over a two week period in July 2006. The final data covers a total of 2,945 supermarket shopping trips covering 21 different supermarkets and 18,000 category purchases across 58 product categories. We also analyzed data taken from 90 minute in-home interviews with many research participants to understand better household traits and store perceptions.

We focus on category purchases for two reasons. First, it reflects the way most consumers think: most shopping lists refer to categories, not brands or specific SKUs. Second, if a particular purchase is unplanned but merely involves a final decision within a category for which the shopper was always intending to shop, this form of 'unplanned' purchase does not represent real incremental demand. It simply relates to the final step of a decision-making process that had already begun. If our main interest is demand creation – truly incremental sales – then unplanned category purchases are key.

Our study finds that approximately 20 per cent of purchases are unplanned; that the amount of unplanned purchases is not proportional to basket size; and that there are enormous differences between households and between trip types. The percentage of unplanned purchases is particularly influenced by some key variables. Store managers can influence some of these variables, such as in-store stimuli, improvements in signage and service (ie, making products easy to locate on a given trip), and the extent to which the store is shopped exclusively on a trip (or is at least the first store visited on a multi-store trip). But many of the strongest influences, both 'for' and 'against' unplanned purchasing, are not in the control of the retailer.

Retailers therefore have two generic strategies if they want to increase unplanned shopping. They can 'do more' with existing customers, or they can make a deliberate attempt to attract the sorts of shoppers who are more likely to make unplanned purchases. The 'do more' strategy takes the existing mix of shoppers as given and focuses on the in-store environment. The 'attract better customers' strategy involves a broader change to marketing strategy, store image and so on.

We modeled these two different approaches. If the store's goal is to increase the rate of unplanned category purchase incidence by 20 per cent, it would need to increase the likelihood of exposure to deals to just over 40 per cent of *all trips*. Alternatively, if the store attracted customer types who are 10 per cent less likely than the existing customers to be 'fast and efficient' shoppers, it would achieve the same result. In terms of stimulating unplanned category purchase incidence, a change in customer traits or behaviour that made customers less fast and efficient overall would be four times more effective than simply increasing in-store promotions.

In other words, while attracting a different type of customer is a much bigger, longer term challenge than, say, improving in-store signage or increasing the number of promotions, it might be more effective. Overall, consumer traits appear more important than states in generating unplanned category purchase incidence.

This raises some important questions for both retailers and their suppliers. Retailers may wonder whether their current in-store marketing budgets are too high. Suppliers might want to revisit budget allocations: should they re-prioritize marketing activities designed to place the brand firmly into the shopper's 'planned spend'? More fundamentally, this research suggests that different consumer segments have different and varying 'receptivity' to different marketing activities. If so, marketers need to develop their marketing plans with an understanding of these varying levels of receptivity in mind.

Understanding which segments are most likely to 'buy in' to which marketing activities and where – and how this connects to overall business objectives – needs to become a central element of marketing strategies.

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# Asking for It

by Ananth V. Iyer and Apurva Jain

**Retailers adopting 'hi-lo' promotional strategies – deeply discounting a product for one period and then selling it at full price for the next – tend to create feast and famine ordering patterns for their suppliers.**

In these situations, manufacturers may find that during one period they have significant excess capacity, while during another period they simply cannot make enough. To smooth these peaks and troughs, manufacturers feel compelled to keep high stock levels in warehouses – thereby adding extra costs. Yet, even with these warehouses, promoting retailers' demands for a particular product often exceeds current stock levels.

Illustrated by examples, the authors come to surprisingly counterintuitive insights:

- In real, complex supply chains where uncertainties of demand and supply affect the performance, the impact of a retailer's variability is not just limited to the manufacturer. The service levels received by *all* manufacturer's retail customers deteriorate.
- If the promoting retailer bears only a *part* of the total supply chain cost of its own variability, it may choose to operate at an even higher level of variability. The manufacturer is effectively incentivizing the retailer to adopt policies that impose extra costs on the manufacturer and the system as a whole! We suggest that it is important for a supply chain to address this 'incentive effect'.

On the one hand, the design of the production system may have the unintended effect of hiding the full cost of variability from the retailer who is generating it. If retailers do not absorb the cost of their variability, and variability increases their revenues, then this structure may well incentivize increased variability in orders. We refer to this dimension as one of 'alignment'. The less the cost of variability is absorbed by retailers, the larger the degree of incentive misalignment. On the other hand, a production system's fundamental role is to serve the retailers at as little total cost to the system as possible. We refer to this as the dimension of 'efficiency'. Higher system costs suggest higher inefficiency. In our analysis, there is an inherent tension between these two dimensions.

Our article suggests a framework for moving forward. It classifies suggestions into several categories. *Pricing based approaches*, like EDLP, are completely efficiency driven. However, after many years of EDLP, promotions are still an integral part of pricing at most retailers. So EDLP alone cannot solve the problem. *Information sharing* about upcoming promotions allows the manufacturer the luxury of advance planning and helps the manufacturer

control costs and increase efficiency. It has, however, no inherent mechanism to ensure that cost of promotional variability is reflected back to the retailer and, therefore, it has no effect on alignment. *Capacity based approaches* can be split into focusing on either hardware (plant and line capacity) or software (scheduling and allocation decisions) and offer the most promising way forward on both dimensions of 'efficiency' and 'alignment'.

A *hardware* focused strategy may involve splitting capacity and dedicating portions to each customer or order segment. In such a system, promotion orders may be separated from stable orders by separating capacity; or individual retailers may be served from different plants. It is easy to implement but requires discipline to enforce as a large and important retailer may sometimes place demands beyond what can be serviced by the capacity dedicated to it. A *software* focused strategy does away with the inefficiency of separate capacities by serving all retailers from a shared pool of capacity. It uses scheduling and allocation decisions to provide priority processing to stable orders, thus rewarding predictability. The term "software" is particularly appropriate as implementation of this strategy will require automated decision models that are sophisticated enough to make near-optimal decisions in real time.

We believe that the software based strategy offers a promising way forward. In addition to its superior performance on both dimensions of efficiency and alignment, this strategy has the great virtue of adaptability; scheduling and allocation decisions can be adjusted as conditions change. Retailers are free to vary their promotion policies once they understand how a manufacturer's scheduling and allocation policies will affect their lead times. Realizing the possibility of the benefits will make retailers open to this new way of business. The final success, however, will depend on the design of decision-making models and software. While our research offers a prototype for such decisions, models and software will have to be developed to fit the realities of each case. A recent ICI-Unilever Research Grant will help fund continued research into this topic and promises to shed further light on this important aspect of grocery supply chain structure and associated performance.

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## Brand versus Brand

by Nirmalya Kumar and Jan-Benedict E.M. Steenkamp

Once upon a time, 'private label' was another word for 'cheap', 'generic', or 'copycat'. But over the last ten years, leading retailers have completely reinvented 'private label', introducing products that sometimes beat manufacturer brands on quality and price, innovate on value, and build complete portfolios to give shoppers a choice of price points and benefits.

Along the way, they have turned 'private label' into fully fledged brands in their own right. To flourish in this new environment, manufacturers need to reinvent their brand strategies, too. Our research has thrown up one definite conclusion: For manufacturers, there is no magic bullet or a single answer to the problem. The secret to success lies in execution rather than grand plans. Hard work and consistent effort in three areas – **effective partnering, focus and innovation** – can go a long way to delivering a way forward.

**Partner Effectively:** Retailers like suppliers that help them improve their profits. However, if every retailer is selling the same brand, there is a limit to the benefits he can get from this approach: retailers, too, want to differentiate their offers. Brand manufacturers can cater to this need for differentiation through developing exclusive brands, exclusive SKUs and exclusive one-time offers on a win-win basis. However, over time exclusive branding strategies are likely to be both costly and confining for manufacturers. One of manufacturer brands' key competitive advantages over retailer brands is multi-retailer distribution. A better approach may be dedicated SKUs, consistent with individual retailers' strategy.

**Fight Selectively:** The rise of private labels has put a squeeze on manufacturer brands. But the impact has been asymmetric. It is the weaker manufacturer brands – those who do not occupy the #1 or #2 market positions – that have borne the brunt of the negative impact. Procter & Gamble has done a remarkable job in rationalizing and turning around their brand and product portfolio. The result has been a lower exposure to foods, where sustainable innovation against private labels is more difficult. Instead, the portfolio has a much sharper focus on products that tend to have higher margins and lower private label competition. But focus and rationalization are not enough in isolation. The lesson from our research is that rationalization can help cut costs and focus resources on better-selling items, but this does not guarantee profitable growth.

**Innovate Brilliantly:** One single statistic underlines the importance of innovation when rising to the private label challenge: Private label success is 56 per cent higher in categories with low innovation compared to categories with high innovation. Products of either incremental or radical novelty are more successful than products of intermediate newness. Within this general rule, in the long run, radically new products offer the best platform for growth. Firms should therefore develop a two pronged innovation strategy: a few bold new category changing products plus a constant stream of incremental improvements, so that retailers are constantly shooting at a moving target.

**Conclusion:** Many things need to come together if manufacturer brands are to resist the rise of store brand sales. One of the first things brands need to do is shake off any residual complacency or arrogance based on past history. Store brands are no longer cheap and cheerful copies of manufacturer brands. They are brands in their own right. There can be no relaxation on basics such as price strategy, quality assurance or marketing support, either.

Given that the basics are being attended to, further work in the areas of better partnership, innovation and focus can help brand manufacturers hold their ground. Here, the secret lies in execution rather than grand plans. Everyone knows that innovation is critical to brands' prosperity. What matters is the detail: the particular approach to innovation, roll-out strategies, brand protection and so on. Looking to the longer term, the challenge doesn't only lie with brand manufacturers. There is growing evidence – in grocery at least – that there is an upper limit of between 40 and 50 per cent private label for mainstream retailers. If retailers 'push' private label too hard, their customers tend to push back. Retailers have to remember that their real job is not to sell store brands per se, but to sell what the consumer wants. It is the same imperative for both sides. If manufacturer brands respond aggressively to the threat from store brands by getting ever better at offering what the consumer really wants, they may be able to recapture their luster.

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# Smart Forecasts for Smart Consumers

by Arnd Huchzermeier and Ananth V. Iyer

Promotions can generate huge swings in demand and therefore pose a significant planning and forecasting challenge to both manufacturers and retailers. Forecasting errors meanwhile add enormous extra cost, either through lost sales opportunities (under-forecasting) or from excess stock holdings (over-forecasting). As Axel Hopp of Metro remarks, “One bad promotion buy can eliminate weeks of careful planning for regular buys”.

A smart customer choice model is a model that takes detailed account of the effects of temporary price changes on consumer behaviour. One way of doing this is via the concept of consumer level stockpiling: how do the consumers stocks at home affect their reactions to promotions?

Understanding such a model requires us to explain three concepts – the reservation price, holding cost and a customer breakeven calculation. Let us assume that all the shoppers coming into a store can be divided into two segments. One segment purchases at a constant rate and is indifferent to retail prices as long as they are below a certain level. The second segment will not purchase unless prices are below a certain level (their reservation price) and, in addition, will typically stockpile product (when retail prices are low). This is the segment we focus on.

Consider the following calculation that these consumers may carry out. They have a reservation price above which they will not purchase. They have a holding cost they posit to capture the limitations on their storage space (at home or in the car), their liquidity constraint and so on. When such consumers are faced with a promoted product whose price is below their reservation price, they have to decide how many days’ worth of consumption to purchase. This is their (intuitively calculated) breakeven number of days’ consumption – after which the cost of buying and holding the promoted item begins to exceed the reservation price.

For example, if the reservation price is Euro 1.0, the holding cost is Euro 0,01 and the price during promotion is Euro 0.9, then the breakeven number of days is  $(\text{reservation cost} - \text{promotion price}) / \text{holding cost}$  is 10 days. Thus, faced with a price of Euro 0.9, this consumer will buy 10 days’ worth of consumption today.

How should a retailer promote in such an environment? If the retailer followed a strategy of promoting the item once every breakeven number of days of consumption, this would prompt our first

segment of price-insensitive shoppers to pay the regular price most of the time, and for our second segment of price sensitive buyers to pay the promoted price every period, for instance, every 10 days in this example.

Consider a typical retail environment where shoppers are presented with the same product in different pack sizes with different per-unit prices, and where these per-unit prices vary from time to time. As the relative value of different pack sizes changes, we would expect to see shoppers switching their preference from one size to another. They might also withhold purchases until prices are low enough, to stockpile inventory when prices fall, and to continue to observe price levels to prompt such decisions.

We tested this hypothesis with the diaper brand Pampers. We plotted price against demand over a period of one year for one Pampers stock-keeping-unit. We found that there is no clear relationship between customer demand and price variations due to pack size switching. These counterintuitive observations made us delve deeper into the effects of promotions on different pack sizes. We concluded it's very important to use a consumer choice model that takes account of price differences between pack sizes each period. Consequently, we aggregated demand of all packages and determined the average price paid as the demand-weighted price across the various package sizes. We then used the consumer stockpiling model to test actual sales against prediction. We found that the extremely simple model of aggregated sales explains 74 per cent of demand variations.

Traditionally, forecast errors varied from 30-140 per cent. Through our model, this error is being brought down to the much more manageable level of 2 per cent for large package sizes which account for the majority of sales (for 87 per cent of all stores in the sample). By taking account of the consumer response to promotions through stockpiling and package switching, forecast error can be reduced significantly. For supply chain management to be successful in reducing forecast error and days of supply, this is an imperative.

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# The Curse of Brand Narcissism

by Alan Mitchell

**Many packaged goods brands find themselves wrestling with a wide range of persistent challenges: slow or negative sales growth, rising retailer power and eroding levels of trust and loyalty. Many brand manufacturers are looking to redoubled efforts at brand building to help them address these challenges. However, in many cases, a greater focus on 'brand building' is not the answer to the above problems: it's the cause.**

Today's brand building orthodoxy has three mutually supporting pillars. Each of these three pillars – the quest for added value, for consumer insight, and for effective communications – hides huge dangers and pitfalls. 'Brand narcissism' takes over when the needs of the brand begin to take precedence over the needs of the consumer.

First, things start to go wrong when, mesmerized by the benefits 'branding' brings, executives set out to 'build a brand' *in order* to be able to levy a premium. This risks misunderstanding the source of brand premiums, leading to misguided actions. Most brand premiums are an *effect* – a by-product of superior underlying business models – not a result of clever marketing per se. Unfortunately, however, when margins are under pressure, this is precisely what many CEOs and brand managers feel compelled to do. Their search for ways to 'add value' and 'differentiate' their brand then leads them to focus more on their brand rather than their customers.

Second, isn't understanding your customer – identifying and meeting his needs – the very heart of successful marketing? Yes it is. However, when companies say 'we are truly customer focused', what many actually mean is 'we are truly focused on what we sell'. So brand building often means, simply, finding ways to present what we sell to consumers so that they buy more, and more often. This way, 'brand building' addresses the seller's go-to-market problem (the company's search for customers). It does not address the consumer's go-to-market problem (the *consumer's* search for value). In doing so, they've created another gap in the market: one which retailers have been only too happy to fill.

There's a third dangerous half-truth surrounding the notion of brand building: the assumption that 'brand building' is a separate process undertaken by a separate group of specialists such as marketing professionals. They see their main task of brand building as 'managing' the associations in consumers' minds via communication processes.

In this way, the company finds itself torn apart by two conflicting priorities: identifying and meeting customer needs to make the products the customer really wants, and issuing communications whose aim is to change consumer attitudes and behaviours in favour of the brand. In the first case, the process revolves around getting the company to do what the customer wants it to do. In the second case, the process focuses on getting customers to do what the company wants them to do – ‘buy our brand!’

Companies like Toyota, Ryanair, Dell, Wal-Mart, Hennes & Mauritz, Ikea, Aldi, Starbucks and Tesco did not become so strong because they excelled in a special black art called ‘brand building’. For the most part, their marketing communications have been low-key to the point of being prosaic and dull. Yet their brands are triumphant. One reason is that these companies are simply excellent at doing what they need to do to deliver basic consumer value. Another reason is that they have all innovated at the more fundamental level of business model. They have discovered a new ‘sweet spot’ where superior economics (business model) connects with superior value for the consumer. Like these company brands, packaged goods brands represent the tip of a *business* iceberg. The brand encapsulates and articulates the value generated by the iceberg as a whole. Brands’ superior margins are a byproduct of the strength of the underlying business: its scale and efficiency, rates of repeat purchase and so on. ‘Branding’ plays a crucial role in crystallising this superior value, but it is not the source of this value. For would-be brand builders this context is critical: you cannot build a bigger iceberg tip if the iceberg underneath is melting.

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Having strong brands is indeed crucial for every successful business. Brand management is an essential skill. But ultimately, brands are not built by a separate activity called ‘brand building’ any more than races are won by a separate activity called ‘winning’. Applied in the right way and in the right context, the modern three-pillared approach to brand building – adding value via consumer insight and superb communication – can work wonders. But applied narrowly, out of context, it breeds brand narcissism.

**DOWNLOAD** the full article from:  
<http://www.ecr-institute.org/publications/international-commerce-review/archive/vol-5-no-5-summer-2005/the-curse-of-brand-narcissism/>



## The Power of Simplicity

Interview with Gianni Ciserani, President of Procter & Gamble Western Europe

**About the new Consumer Goods Forum and ECR Europe:** The CGF represents a significant change in the landscape. It simplifies things a lot. It's about focus. It's also very positive that the CGF's approach reflects the core principles adopted by ECR Europe since it began: joint participation by both manufacturers and retailers and joint focus on the consumer. Having one forum that represents all the key stakeholders facilitates dealing with a number of different issues that are emerging. Many are complex, urgent issues. It's much easier and better to address them using one forum that represents all the key stakeholders.

**About the recession affecting consumer behaviour:** I think we are facing a new reality. For many young families, this is their first real recession. Many families are worried for the first time. This changes their choices. It affects their approach to shopping. Many families are reassessing their portfolio choices and coming up with different priorities. Once they have made these reassessments, the priorities won't change quickly. Everyone knows consumers have been trading down: trading down brands and trading down channels. What is less well known is *the way* consumers are trading down. This is not consistent from family to family. For brands, and retailers, this is making it much more difficult to find a single answer.

**About different price points within brands:** Our research tells us that there are four distinct shopper segments. All of these shoppers value both performance and price; they just weigh the factors differently. Today, all shopper segments are placing a greater focus on value.

In a sense, we have always offered a portfolio of price points, but it has been *between* brands. Now we are creating a portfolio of price points *within* brands. The launch of Pampers Simply Dry was an important and significant move for us. We are not trying to address the "cheapest possible", but we are addressing the middle, where the consumer wants the core benefits. This means that, in many countries, we now have three diaper price tiers. Of course, we had to carefully examine cannibalization issues. Essentially all of Simply Dry's share has been incremental to the brand. By addressing the value tier, the brand was able to take a price increase behind a new innovation on the premium tier and still grow overall brand value share by 4 percentage points. We are now applying the same approach to most of our main categories.

So, for example, we currently have value-tier offerings in roughly half of our key categories in our top 17 countries, and we will increase the number of categories this year and next.

**About adding complexity:** As an industry, we really need to think through the implications of innovation. Over the last few decades, we worked according to the assumption that “more is better”. The more this happened, the more confused shoppers became. Several retailers are now working with the philosophy that “less is more”. That’s an incredibly powerful concept. It means that an SKU stays on the shelf only if we know it’s winning with shoppers. In turn, reducing the number of SKUs has positive effects on inventories and cash flow, and it means less waste from returns and remainders. It also means a happier shopper, who can find what she wants more easily. We are always ready to take the consequences if the assortment is based on shopper needs. If our brands don’t survive this test, then it’s our fault. It forces us to focus on which brands and which approaches to merchandizing will win the consumer’s choice.

Gianni Ciserani is President of Procter and Gamble Western Europe. He is also Co-Chair of ECR Europe, together with Dick Boer, Executive Vice President and COO of Ahold Western Europe.

**About sustainability:** Here we face two urgent issues. First, if we as an industry are not able to quickly provide credible answers, then regulators will do it for us. It’s much more efficient for us to come up with solutions that we know we can deliver than for regulators to come up with solutions that we cannot deliver.

Second, there is a need for complete life-cycle analysis of the problem and its solutions. For example, in fabric care, 70% of its carbon emissions are created by consumers’ use of their washing machines: not the production of the soap powder, or its distribution, or recycling or packaging. We can see the same issue in logistics. We can only go so far if we resolve issues in isolation or in only certain parts of the chain. We need the concept of end-to-end logistics. *Many of the issues can be resolved only if we agree to change the total chain.* That means we must work together much more closely.

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<http://www.ecr-institute.org/publications/international-commerce-review/archive/vol-8-no-2-4-winter-2009/interview-the-power-of-simplicity/>



# Creating a Customer-Driven Supply Chain

by Daniel T. Jones and Philip Clarke

**Traditional retail supply chains work according to the motto “better, centralised and distant”. The motto of tomorrow’s leading-edge supply chains will be “fresher, simpler and closer”.**

Products will flow quickly and seamlessly down value chains which encompass many different firms, in direct response to consumer orders. Consumers will be an integral, crucial and value-adding link in the whole process.

At Tesco, following both the product travelling downstream and the order travelling upstream, we drew a map of the total value stream. We found: Lots of stock in all elements of the supply chain; Machines producing for between 30-50 per cent of available time; Trucks being used effectively for 30-50 per cent of available time; Order processing in batches by eight different systems, all double-guessing each other; Availability of 98.5 per cent for an average shopping basket, meaning a 55 per cent chance of finding all needed items on the shelf.

Daniel T. Jones is Chairman of the Lean Enterprise Academy. He is also Editor in Chief of the International Commerce Review.

Philip Clarke is International and IT Director of Tesco PLC.

Three objectives were distilled: One touch, continuous replenishment so products and orders flow through the value stream quickly; Harnessing the data required to allow customers to pull the right products through the value stream, with as little amplification as possible; Applying flow and pull upstream to include production, transportation and store handling.

Tesco also began to explore how its systems could pass orders continuously to its suppliers, rather than once a night. This reduces lead times because orders don’t wait anymore for a batch to run. And, when suppliers’ systems can respond on a continuous basis, it helps to eliminate much of the noise in the order signal.

All this great work culminates in one place – where product meets consumer in store, on the shelf. Once all pieces have been put in place, service levels will rise to 99.5 per cent, increasing the chance of first-time fulfillment of an average basket of 40 items to 82 per cent.

The foundation of any flow system is that every step becomes interdependent. Without this, there will always be a need to carry intermediate safety stocks. However, the key to doing so will be a relentless focus on customer needs, a substantial effort to improve operational capabilities and joint process analysis with your supply chain partners.

**DOWNLOAD** the full article from:  
<http://www.ecr-institute.org/publications/international-commerce-review/archive/vol-2-no-2-winter-2002/creating-a-customer-driven-supply-chain/>



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