



Sir Terry Leahy, CEO of Tesco, is a new co-chairman of ECR Europe. We asked him what he saw as the ECR movement's biggest challenge at present.

TL: I think that, understandably, people want to give up the journey before it's complete. Sometimes, it's because the journey is too hard. Sometimes it's because they can't see where the journey's end lies. Sometimes it's because they can't see how far they've come.

Also, sometimes, organisations don't do enough of their own thinking. It's easy to put your faith in off-the-shelf or proprietary solutions.

But really, ECR is about pushing ahead

industry knowledge. That is where the great majority of our time and effort should lie – stimulating thought, developing and disseminating knowledge. But that is difficult, because pushing knowledge forward is still one per cent inspiration and 99 per cent perspiration. It takes a lot of grunt.

What is ECR's biggest achievement to date?

TL: It is the focus on customers, and on collaboration. That's the core of the

Sustaining the thirst for knowledge

INTERVIEW

Interview by Daniel T. Jones and Alan Mitchell
Cheshunt

Pushing ahead industry
knowledge. Putting supply chain
relationships on a professional
footing. Actually delivering
what consumers want. Making
ECR happen takes 'a lot of grunt'
– and there's a lot more to do

Customer focus and collaboration. We need to deepen both.

process. Now it should deepen its focus in the areas it has addressed itself to. There is a huge waste within the existing supply chain. There is still an inability to actually deliver what consumers want.

You seem sceptical about proprietary and prescriptive solutions, but isn't that exactly what ECR has done – develop prescriptive approaches such as the eight-step approach to category management and collaborative planning, forecasting and replenishment (CPFR)?

TL: I would be wary of oversimplifying issues, packaging up solutions in slogans and becoming too prescriptive around packaged solutions and responses.

For me, that's not what it's really about. What it is about is the search for knowledge on an industry-wide basis. How best to understand consumers' needs? How best to operate supply chain processes to create most value and least waste? These issues are a lot more fundamental.

Yet, isn't this sort of knowledge the secret of competitive edge? Why should anyone want to share it?

TL: Sharing knowledge is not a brake on individual competitive efforts. In fact, there is a lot of self-interest in sharing knowledge, because in a supply

chain you can only go at the pace of the slowest element. You need industry standards to be advancing all the time, in all the elements of the supply chain.

What are the obstacles to collaboration at the moment?

TL: I think it's developing the acceptance that professional management of relationships within the supply chain is as important as professional management within units of the organisation. Over the last few years leading retailers and manufacturers have changed how they operate internally, out of all recognition. But they have not overhauled how they manage relationships.

Modern organisations are highly skilled, well resourced, with clear roles and responsibilities. They have been taught how to work as teams, run processes, are very disciplined, are very target-based, with clear alignment of accountabilities and responsibility.

Yet, often, the relationship between elements of the supply chain is completely arbitrary. At its worst, it's about entertaining on the golf course, or the whim of the buyer or salesman. Often these relationships are jealously protected or handled on a power-broking basis. At worst, they actually block both organisations' ability to work together on objectives which are, by their nature, common.

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How will B2B exchanges impact on that?

TL: B2B exchanges are one way – but only one way – of sharing common information and sharing common infrastructure for looking at information. This helps to clarify things, speed up decision-making and create a common view. There are other ways of sharing information and databases. But the key point is this – today, information systems aren't joined up. There is a real Tower of Babel in the supply chain, and this causes a lot of the volatility and waste.

You mentioned “deepening” ECR. What exactly do you mean by that?

TL: Professional management of supply chain relationships is a good example. There's an awful lot to be done in the supply chain. We'll know ECR has run its course when there is a survey of one million European consumers and they profess themselves to be completely satisfied with everything. We could also collaborate a lot more in communicating with our common consumers.

The history of this – at its worst – was that consumer goods manufacturers would see retailers as either neutral or a threat to their ability to have a dialogue with the consumer. Likewise, the retailer would see the manufacturer as having little to contribute to his dialogue with the consumer.

The irony was that we were both

addressing the same consumer – but completely separately. Through ECR we are developing a broad-based, industry-wide consensus around the need for collaboration here, too. For example, in Tesco there are many examples of companies speaking to consumers through our Clubcard (loyalty card) database. So we are also collaborating in terms of speaking to the consumer.

What part has ECR played in developing Tesco, internally?

TL: A huge part. The philosophies that underpin it strike a chord with how Tesco wishes to run the business.

Our core purpose is to create value for our customers to win their lifetime loyalty. We build our business back from the consumer. We try to operate the business as a genuine pull system. But we need the assistance of our partners to do that – and also to make us better at doing it, because we don't have a monopoly of wisdom in terms of what consumers want or how they might respond. So ECR is important to us.

Is there one particular ECR discipline that has proved particularly useful?

TL: Category management is hugely important, though I use terms like this in plain English rather than proprietorial or prescriptive form.

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Consumer data is a new business basic

process of managing around a purchasing decision by a consumer. It began just with retailers and has gradually extended to manufacturers. That process has been enormously important over the 20 years I have been working in retailing.

Can you tell us more about Tesco's experience with loyalty cards?

TL: Customers love them. And the reason they love them is that they provide information about things they are interested in, so that leads to better marketing.

Just better marketing? You mean more focused promotions and communications?

TL: No. Good business is the same as good marketing. Good business is understanding customers' needs and satisfying them, and loyalty cards play an important part in that because you gain a much better insight into individual consumers' needs and you have got avenues through which you can directly address them.

These are not small things. They are big things. They are a new, fundamental building block for businesses like ours.

You described your core purpose in terms of earning consumers' lifetime loyalty. When you use the word "loyalty" do you mean "repeat

purchase" or are you talking about a deeper emotional bond?

TL: Loyalty is an emotional term, which means there is a relationship of trust. The assumption on behalf of the consumer is that they can trust the retailer with whom they are loyal to work in their interests. So they give the retailer the benefit of that trust. This is a huge advantage.

But traditionally, when marketers talk about trust, they mean product trust – delivering on a promise of product functionality. "Working in the consumer's interests" is much broader.

TL: Yes. The retailer has a much broader relationship. You spend a lot of time with a retailer. You spend a lot of money with a retailer. You are very reliant on the retailer in terms of the products you use in your household.

Looking to the future, what do you think the long-term effect of auctions will be?

TL: I don't know. But creating an infrastructure which allows people to come on and off the marketplace helps reduce transaction costs. Before, the way this worked was often unfair because of the way things were handled. Auctions have the potential to be fairer. They are more transparent and easier to join.

Is there a danger that auctions encourage more adversarial relations?

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Primary distribution will be important.

TL: Yes. So we've got to work our way through that.

What about future developments in the supply chain?

TL: Things like radio frequency identity tagging have great potential. But it takes time for these things to get off the ground. Primary distribution is going to be an important building block. A number of retailers around the world are looking at it. It makes sense. It will cause concern, and that's very natural. Those concerns have to be worked through.

Could – should – ECR expand to include non-food suppliers such as, say, electrical goods?

TL: I think they will get involved when it makes sense for them to. I notice that, years ago, our own supplier meetings at Tesco used to be only grocery. But now they happily include entertainment software providers, small electrical and lighting suppliers, and so on. It's a natural process, really.

What about new challenges such as the environment, food safety and so on. Do you think the ECR movement should start thinking about those areas as well?

TL: Only in the sense that they truly and properly reflect expressed consumer wishes. To the extent that such issues are a bigger part of consumers' needs and

desires, then naturally the ECR process will develop to accommodate them. But one has to be careful not to tack government or NGO wishes on to what is a consumer-facing process.

What about the criticism that ECR is a club for big boys?

TL: Well, I think it has to show itself not to be. It elaborates on pushing forward-knowledge and publishes that knowledge. I think that is an enormous strength and much more valuable than there not being ECR, and the big boys having proprietorial control of it all.

As retailers like you go global, does "ECR Europe" still make sense as an entity?

TL: Yes it does. At Tesco, we don't "think globally", because in retailing, value is created locally. You've actually got to think locally first. And then regionally. And only then internationally. So while it is inevitable and proper that movements like ECR are international in scope, it makes a lot of sense to always remember geography and closeness to the consumer.

But globalising retailers need to generate some form of economies of scale. Otherwise the local competitor could do the job as well as you.

TL: The best way of looking at it is as a continuum in terms of where the economies of scale lie. In retailing the

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economies of scale are much more local than in any other industry. That is why it was one of the last industries to become multinational.

If you had a continuum in retailing it would be, say, 90 per cent local and 10 per cent cross border. The really helpful way to look at it is that you cannot afford to give up any of your local competencies or economies of scale in search of cross-border economies. It isn't a trade off – either/or. It has to be local and international.

You know, when you are running a 100-metre race, the winner is only one hundredth of a second ahead. That's all you need to win. It's the same in business. You only need to be one per cent faster.

So, provided you've got all the locals in place, there is enough there in terms of the extra elements of multinational or international. But if you lose any of the local in pursuit of the international, there won't be enough on the international side.

At the end of your stint as co-chair, what would you have liked to achieve, and how would you judge your progress towards that goal?

TL: If, at the end of that period there was a greater thirst for knowledge around ECR and the applications of learning and best practice, then it would be a success.



Franck Riboud, chairman and chief executive of Groupe Danone, joins Sir Terry Leahy as co-chairman of ECR Europe at the Barcelona conference.

Mr Riboud started working for the company in 1980 taking on many roles including brand manager, regional manager and sales manager. In the early 1990s, he helped integrate Nabisco's European activities into the group, became General Manager of Evian Water and was responsible for the group's internationalization, including changing its name from BSN to Groupe Danone.

Mr Riboud joined the board in 1994 and became CEO in 1996. He will be interviewed by ECR Journal in its next issue.

For the ECR movement, success is creating a greater thirst for knowledge and for the application of learning and best practice