

ECR is now ten years old. But what are its actual effects so far? A major research study assesses progress so far - and what we can learn for the future

Assessing the contribution of ECR

RESEARCH

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At the first ECR Europe Conference held in Geneva in 1995, the concept of Efficient Consumer Response (ECR) was introduced for the first time to a European audience. At that conference, ECR was defined as a set of improvement initiatives to help grocery retailers and their suppliers to “work together to satisfy consumer wishes better, faster and at less cost”.

Bold predictions were made that these initiatives would allow the industry to save costs equivalent to 5.7% of consumer sales value.

But what has actually been achieved in the ensuing ten years? To find out, the ECR Europe Executive Board asked the ECR Europe Academic Partnership, together with IBM Business Consulting Services, to investigate the status of ECR implementation in Western Europe, ECR

adoption patterns and the effects of ECR adoption on retail and consumer goods businesses.

The team analysed the ECR Global Scorecard database, which contains close to 1,000 self-assessments of companies from around the world on degrees of ECR adoption and achieved performance improvements. Almost forty new case studies on ECR adoption (including four in-depth case studies on the financial impact of ECR adoption) were also studied, as well as a wide range of macro-economical databases and reports on the development of the consumer goods business in Western Europe.

The results of this research are reported in detail in the new ECR Blue Book The Case for ECR¹. This article summarizes some of its main findings.

ECR adoption has become a moving target: the number and range of ECR concepts and activities has grown considerably over the last ten years.

In general, the ECR movement is an attempt to re-engineer the consumer goods business as a whole to establish efficient, collaborative, consumer-oriented business processes. Compared to ten years ago, when business practices between retailers and manufacturers were predominantly of an adversarial nature, the shift towards collaborative processes is becoming increasingly apparent. But how far down this road are we?

Implementation status

Overall, ECR-adopting companies have made large progress over the past ten years, especially if we remember that full ECR adoption has become a moving target: the number and range of ECR concepts and activities has grown considerably over this period. Not surprisingly, the early ECR concepts are the most widely applied today. Category management is established in most large companies but also in many small and medium size companies throughout Western Europe. The extensive use of both data and unit load standards within the entire Western European industry makes the consumer goods business a show case example of efficiency in this area. However, more recent ECR concepts such as shrinkage management and collaborative customer relationship management are just beginning to be adopted. A limited number of companies

are leading such developments by conducting several in depth pilot projects. They are now starting to make broader use of their new collaboration capabilities in their organizations. Other companies are either still watching or conducting their first trials so all in all, adoption levels for these newer ECR concepts are still low.

Across Western Europe, the adoption of ECR has reached considerable momentum. In recent national and international surveys large numbers of retailers and manufacturers indicated that they have started, or are in the midst of adopting collaborative business practices. Some companies are leading ECR users in all its aspects. Others focus on specific elements of ECR in which they have reached relatively high adoption levels, while reporting low adoption levels for other ECR concepts.

In some cases this focus is caused by specific regional circumstances, e.g. ownership structures, concentration, or cultures. In other cases, the focus in the adoption follows the evolution of ECR. At its beginning ECR comprised of few concepts, particularly category management and continuous replenishment. Soon, the need to create common standards moved centre stage. Gradually, further concepts were added and existing ones were refined.

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The continuing development of existing ECR concepts and their simultaneous adoption in business practice causes a broad perception that full adoption of ECR is still a long way away. Yet, compared to where we started from, substantial advances have been achieved. Also, the continuous addition of new ECR concepts challenges organizations to start ever more ECR adoption activities. This makes practitioners feel they are still at the beginning rather than coming close to full ECR adoption. Today, businesses are collaborating in areas where collaboration was thought to be impossible ten years ago. In short, ECR has become an evolving, moving target, so self-assessments are ambiguous.

Ambiguity also exists in the use of ECR terminology. Some practitioners (and the official ECR organizations) understand ECR as a broad initiative consisting of many comprehensive concepts. Others narrow their understanding to a few concepts or limit it to IT-concepts. Often, the latter have given their collaborative initiatives other names. So, discussions about ECR is still open to misunderstandings.

So where are we today? Generally speaking, the traditional ECR concepts are relatively well adopted in the consumer goods business, while the more recent ECR concepts are in early adoption stages. Also,

regional market conditions influence ECR adoption (the many national studies on ECR implementation give a comprehensive image of these patterns).

Adoption management

Surprisingly, little is known about the adoption progress in individual companies. Very few companies monitor and track their ECR adoption progress. While many have developed ECR adoption strategies and plans, and their senior executives personally drive ECR adoption and allocate substantial resources, few check whether the targeted ECR adoption levels are achieved in quality and time. So, many companies run extensive, costly ECR adoption projects without properly managing/controlling the process.

The Global Scorecard had been introduced years ago by ECR Europe and the Global Commerce Initiative as a comprehensive standardized tool to measure ECR adoption levels. A website was established that even allows industry benchmarking in ECR adoption. Nevertheless, few companies assess their business relationships on a regular basis.

Corporate benefits

Bearing these points in mind, what have we achieved so far through ECR adoption? One way of making an assessment is by comparing the business results of top-tier ECR adopters with low/non ECR adopters.

Top tier ECR adopters' service levels are 5.7% higher than non-adopters, finished goods cover is 10 days less, and on-shelf availability 4.9% higher.

Service levels. Top-tier ECR adopting companies' service levels are on average 5.7 percentage points higher compared to low/non ECR adopters. Many factors influence service levels, and the difference between the two groups varies strongly by country. Nevertheless, the difference between top and low/non adopters is statistically highly significant.

Stock levels. Top-tier ECR adopters have on average 10.0 days less finished goods cover in their warehouses than low/non ECR adopters. Again, this value strongly depends on the country. In the UK, the difference is particularly high. There, the low/non ECR adopters report a mean of 96.5 days, while the top-tier ECR adopters benefit from 41.0 days cover only. Given the capital intensive nature of excess inventory, this means top-tier adopters have access to tremendous financial resource that can be re-deployed to drive growth.

On-shelf availability. Top-tier ECR adopters' on-shelf availability is 4.9 percentage points above those of low/non ECR adopters. (Once again, the results are highly statistically significant.) Top-tier ECR adopters have close to half the average level of out of stocks than low/non ECR adopters. They work collaboratively with their trading

partners in delivering against focused on-shelf availability targets as an integral element of shopper based business planning. This clearly represents a shopper-focused competitive advantage for these leading businesses.

Time Effects. The increasing adoption of ECR over time is also reflected in the continuous improvement of several business performance indicators. Further efficiency has been gained through reductions in delivery time, a few from 120 to 72 hrs in three years: many ECR top-tier companies nowadays guarantee delivery within 48 hrs to their customers. Furthermore, on-time delivery has notably improved, reaching 98-99% in many cases.

Consumer benefits

For this aspect of the study, ACNielsen and a multinational consumer goods manufacturer shared some of their shopper and consumer research with us.

ACNielsen measured shoppers' perception of retailer performance. Approximately 4100 shoppers in France, Germany, Italy, Netherlands, Spain, and UK were interviewed in 2004. Each interview started by asking the interviewee about her top of mind retailer as well as her awareness of and her interaction with other retailers in her area. Then, the interviewee was asked to

Exhibit 1:
The retailer performance - shopper trust correlation
The combined result of these two studies suggests that with ECR retailers and manufacturers have a big opportunity to jointly improving the shopping experience.



rate a retailer regarding different criteria on a scale ranging from 1 (very low) to 5 (very high). For the purposes of this study we focused on those criteria which are generally claimed to be impacted by ECR adoption, namely:

- well presented display of products
- attractive and interesting store deals and promotions
- wide product range and variety
- one-stop shopping
- good selection of high quality brands & products
- high product availability
- easy navigation and finding of products

The ACNielsen study comprises of evaluation data for 56 retail channels, from top-tier ECR adopters to non ECR adopters. We grouped the retail channels per country into "top-tier ECR adopters", "average ECR adopters" and "non ECR adopters". The grouping is based on information about retailers' ECR adoption levels recorded in the Global Scorecard database and the case studies created in our study as well as on opinions given by industry experts and national industry associations.

Overall offering. For all analyzed criteria, the ACNielsen data shows that shoppers evaluate top-tier ECR adopters significantly higher than non ECR adopters, though the differences between top-tier ECR adopters

and average ECR adopters are substantially smaller and are statistically significant for only two criteria: well presented display of products and interesting store deals and promotions. However, these two criteria are core outcomes of category management activities. So, top-tier ECR adopters have managed to use category management to achieve sustainable competitive advantage over their competitors - in the shoppers' eyes.

Trust and loyalty. Shopper research by the multinational manufacturer shows that top-tier ECR adopting retailers have won higher shopper trust than their non-adopting peers. Combining this data with ACNielsen data on shopper loyalty shows a strong correlation between trust and loyalty (see Exhibit 1).

ECR and competitive advantage

Research results like these might appear to prove conclusively that ECR adoption is a key to competitive advantage. But we need to exercise caution here. ECR has a positive effect, but it is not a direct source of competitive advantage. Why is this?

Competitive advantage primarily comes from the uniqueness of a company's business strategy and how it puts this unique strategy into practice. But ECR does not offer or deliver uniqueness. To the contrary, all it offers is standardization: a common set of tools, concepts and

Of companies with a sound business strategy high ECR adopters benefits the most. Why? Because they were able to implement better and faster.

processes which are there to be adopted by all industry players. These standard collaboration processes are targeted to help create high industry efficiency and reduced complexity for all companies dealing with numerous suppliers or retailers. ECR therefore aims at increasing efficiency by using more standards, not by offering unique processes.

However, there is an additional consideration that shows that ECR can play a key role in helping companies attain sustainable competitive advantage. Companies' success depends strongly on how good they are at transferring strategy into practice. This is where ECR does help improve business success - in more comprehensive and faster implementation of their individual strategies.

In the current business reality, neither retailers nor suppliers can act independently. Manufacturers depend on retailers to distribute their products in the most efficient and effective way. Retailers depend on manufacturers to supply them with goods that help them fulfil existing or emerging consumer needs in the best possible way. Each one's strategy implementation requires an optimum reaction from the other party. Also, the higher the coordination of their activities, the more likely is it to become a success. If strategic activities are not aligned or coordinated in such a business context, both sides face a much higher risk that

their strategy will eventually fail.

Our analysis of the cases and data on ECR showed a clear pattern. Of all the companies with a sound business strategy, those companies that had a high ECR adoption level benefited most. Why? Simply because they were able to realize their strategies better in less time.

This finding - that ECR in itself is not a source but an enabler of competitive advantage - is important when it comes to setting practitioners' expectations. The higher the hopes, the more likely that some time in the future, those involved will feel that ECR failed to deliver. Only if realistic expectations are set can we keep the momentum and the motivation needed to sustain progress.

Size of the prize

At the first ECR Europe conference in 1995, Coopers & Lybrand presented results of a value chain analysis which indicated that on average costs equivalent to 5.7% of consumer sales value could be eliminated from the grocery value chain by fully adopting ECR working practices. Later expansion of the ECR concept to include transport optimization lifted the total expected cost savings to 6.9% of consumer sales value.

Ten years later, a follow-up study by IBM Business Consulting Services for the ECR Europe Executive Board suggests that so far, across the industry, ECR adoption has

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delivered savings of 3.6% on consumer sales value since 1995 (i.e. over 18 Billion Euro at 1995 currency rates). This is a substantial achievement. But it also suggests that a further 3.3% savings are still left on the table. So far, the industry has realized just about half the savings opportunity identified at the beginning of the ECR movement.

On top of that, IBM research suggests that there is a potential additional 5% extra sales which could be generated from a full adoption of ECR. The major source of such growth is from collaborative shopper value creation and from optimized new product introductions, though reducing out-of-stocks (a positive growth destroyer) also plays a role. Of course, some of the growth achieved by better shopper value creation and new product introductions comes in the form of market share gains. It is not growth for the industry as a whole. But if shoppers are presented with well designed products, which fulfill their needs and which are presented to them in an innovative way, then it is not unreasonable to believe that some real growth is possible.

Implementation challenges

In the adoption of ECR in individual companies there are, however, still many obstacles to overcome and much still to learn. Here are some of the main points from our review of ten years' experience of ECR adoption.

Pilot projects are a good way to gain initial experience of ECR processes and to learn how to adapt standard concepts pragmatically to the specific needs of a company. The people involved in a pilot project should remain the same over the project's duration. This ensures clear contacts and responsibilities, and it allows the project members to experience the entire pilot project. Projects need to have their own dedicated assets (to avoid infighting between departments over resources and budgets). They also need to be driven by multi-functional teams. This helps ensure buy-in from many different departments, while raising awareness within the company.

Those involved need to be realistic about the resources needed to make a pilot work. Pilots are all about learning, which involves testing and making mistakes. They usually require additional exchanges of data which often requires extra manual work. Finally, successful pilots need to be rolled out as normal day-to-day business practice as quickly as possible. It is all too easy to get stuck by running countless pilots but never transferring the lessons to day-to-day business practices.

A strategic approach. ECR is made up of many different concepts which connect different organizational areas. Successful ECR adopters cope with this complexity by following a comprehensive strategic plan.

The most surprising finding of this study Is that there is little evidence that companies actually monitor ECR adoption progress.

For example, some ECR concepts can only be addressed if other concepts have already been implemented. Also, the adoption strategy must set clear priorities. If too many projects are pursued at the same time, resources might be spread too thin. This need for a strategic approach underlines a common, underlying theme: for collaborative business practices to work, top management commitment is vital.

Clear terminology. The term 'ECR' is often understood to mean different things by different people. For some, ECR is an umbrella term for any kind of retailer-manufacturer collaboration. For others, it is about better data exchange between retailers and manufacturers. Yet others see ECR as a supply chain improvement exercise - often category management is not included under the general umbrella of ECR. If managers themselves are not clear about which terminology they are using and why, when they try to bring the message to their staff this confusion will only be compounded.

Keep it simple Many people are dazed by the complexity of the ECR concepts and processes. Sometimes this is because the ECR adoption process is simply uncovering complexity that was always there but which people hadn't seen before. Sometimes it is because ECR concepts are presented in their full, ideal form. A

pragmatic approach is needed.

Trust. ECR-style collaborative activities are based on the philosophy of sharing to gain more - an approach that flies in the face of traditional retailer-manufacturer relationships. A certain degree of trust between a retailer and a manufacturer is needed for a collaboration to work - yet that level of trust does not exist. A deliberate approach to trust building on the job is necessary.

Capabilities. Like trust, some ECR concepts simply cannot be implemented if the companies concerned lack the necessary skills or technologies. Building such capabilities and acquiring the necessary technologies often requires an up-front investment, which some companies are reluctant to make.

Monitor progress. Most senior managers state that ECR adoption is a complex and difficult change management task, requiring good planning. It is therefore important that they know how well each project is going so that they can intervene where necessary, distinguish between successes and failures, and learn the lessons. However, there is little evidence that companies actually monitor ECR adoption progress. This is probably the most surprising finding of this study.

Managers expect a lot of ECR. Yet the management of ECR adoption has received limited attention so far. No wonder so many organizations struggle.

'Joined up' thinking. Many companies 'adopt' ECR without thinking through its implications for their overall strategy. For example, many companies' core strategies revolve around protecting and increasing their independence. Retailers want to reduce dependence on strong suppliers. Manufacturers want to strengthen their brands and broaden penetration. But ECR is about deep, long-term collaboration, which implies increased 'dependence' on business partners. If the strategy isn't thought through carefully, tensions and misunderstandings are bound to arise, both between companies and internally among staff.

Conclusion

Many consumer goods manufacturers and retailers in Western Europe have invested considerable money, time and effort in attempts to apply ECR concepts to their businesses. They have hoped for significant efficiency improvements and have achieved progress in this direction. Many have joined forces to developing new ECR concepts and to learn how to apply existing ones better. Yet, the management of ECR adoption has received limited attention so far. No wonder so many senior executives complain that their organizations struggle to make use of ECR in their day-to-day practice.

This research project has shed light into the causes of this frustration. Senior

managers can now make use of a vast list of key learnings that help them in improving ECR adoption effectiveness and efficiency. The patterns and scientific models behind each learning can assist companies in adopting ECR faster, more comprehensively, and adjusted to their specific needs. Eventually, quicker ECR capabilities enable those companies to develop unique business strategies and to put them into practice faster: to their own benefit, to the benefit of their business partners, and eventually to the benefit of consumers and shoppers.

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- 1 ECR Europe Academic Partnership & IBM Business Consulting Services (forthcoming): *The Case for ECR, Brussels* (soon available at ECR Europe, see www.ecrnet.org, and major bookstores)

ECR accomplishments:

- Inventory levels have decreased, service levels have increased, on-time delivery has improved and lead-times have been reduced.
- Top-tier ECR adopters report higher service levels.
- Top-tier ECR adopters report lower finished goods cover.
- Top-tier ECR adopters report higher on-shelf availability.
- Through the use of Category Management, ECR has fostered category development.
- Through the use of data synchronization, ECR has improved invoice accuracy.
- Shoppers widely recognize that top-tier ECR adopting retailers have an improved offering.
- Shoppers have higher trust of top-tier ECR adopting retailers.
- ECR has helped suppliers / retailers to improve their supply chain operations.
- ECR has helped suppliers / retailers to improve sales and image.
- Top-tier ECR adopting suppliers have become retailers' preferred collaboration partners.
- Top-tier ECR adopting suppliers have progressed and extended their capabilities.
- The improvements made through ECR have led to tougher competition in retailing.
- Increased and linked shopper and consumer knowledge enable both parties to create higher consumer value.
- Jointly, retailers and suppliers have become more responsive and flexible.
- Retailers and suppliers have increased the level of trust and fairness in their business relationship.
- Retailers and suppliers show higher commitment to joint problem solving.

Adoption experiences:

- Pilot projects are the predominant way to start ECR adoption.
- The selection of the project partner influences the success of the ECR pilot projects.
- ECR adoption needs to follow a strategic plan.
- Pilot projects, requiring dedicated, multi-functional and additional resources to allow learning, information exchange and structural adjustments, should be quickly implemented into normal business practices.
- Participating in official ECR projects enables learning by accessing expertise from different organizations.
- There are substantial differences in the understanding of the term "ECR."

- Some ECR concepts are perceived as being overly complex to be adopted.
- Top management commitment to collaborative business practices is mandatory and must be integrated into staff incentive programmes
- The level of trust between a retailer and a manufacturer that is needed to intensify collaboration is often insufficient at the beginning of a partnership.
- Companies hardly monitor ECR-adoption in day-to-day business practice; hence do not actively manage broad ECR-adoption.
- A major barrier to getting started with ECR is that companies lack the specific capabilities required to benefit from ECR and are reluctant to invest.
- The technological requirements to automate elements of the ECR concepts are still unmatched.
- Companies frequently forget to integrate ECR thinking into their business strategy.
- Retailers' and manufacturers' traditional approaches are deep rooted in employees' mindsets.
- High fragmentation of a country's retail industry hinders the adoption of investment intensive ECR concepts.
- Small and medium sized companies are often ECR adoption followers.
- The ownership structure of stores requires different strategies for ECR adoption.
- The intensity of the price pressure in a market impacts ECR adoption.
- The overall business climate of a country impacts ECR adoption.
- Category Management has become a standard business practice among fast moving consumer goods manufacturers and retailers across Europe.
- Organizational interfaces between retailers and suppliers have become more efficient and standardized.
- The increasing definition and adoption of global data standards has enabled efficient data and information exchange.
- The understanding of the need for data exchange, caused by experiences from ECR adoption, has fostered the use of web-exchanges; reducing IT costs.
- The European Union's request to develop and implement food tracing systems has widened the use of data standards and information systems.
- ECR adoption rarely delivers immediate financial benefits.
- ECR-adoption alone does not give competitive advantage. ECR-adoption allows more efficient strategy implementation. However, Non-ECR-adoption results in competitive disadvantage caused by lower efficiency.