

# **CPG-RETAIL COLLABORATION IN EMERGING MARKETS**





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## INTRODUCTION

Collaboration - a systematic and conscious effort between two parties in creating a positive synergy by working towards a pre-defined goal. In today's business world, the term 'Collaboration' is gaining even more attention. This is because, none of the three bottom lines - **Social, Economic & Environmental**, can be achieved by any company working in isolation. In this paper, we will highlight how CPG companies and Retailers in emerging markets should work together to create a profitable, sustainable and socially acceptable business environment and in turn, try to reach Nash equilibrium for all the stakeholders.



## NEED FOR COLLABORATION

**Business Context:** Fast changing consumer needs and preferences coupled with the explosion of product and channel options challenge CPG and Retailers to retain consumer franchise. Most of these challenges can be addressed by collaborating CPG and Retailers. Let us take a look at few of the major challenges:

## CPG MANUFACTURERS

**Demand Planning:** Supply chain for a CPG company is based on accurate and efficient planning process. More often than not, CPG companies find it hard to gauge demand patterns due to unavailability of sell-out data. Consequently, they have to work with traditional forecast methods, which are prone to estimation errors leading to OOS of high selling SKUs and ageing of low selling SKUs. However, in both the cases, there are huge downsides potential for the CPG companies.

### Some of the other planning challenges companies face:

- Promotional plan strength: Normally 20-25 % of the budgets go into trade promotions. Therefore, it becomes imperative for brand managers to plan volumes that can give maximum lift to the product.
- New product launch plan: Knowing the target segment, market, and quantity is very important to a launch activity and without retailers input, launch plan cannot leverage its benefits.

- SKU rationalization exercise: Before rationalizing the SKU, it is necessary to know the reason for the less sell-out being faced. It could be an issue, which in conjunction with retailers can be resolved.
- Order management process: Reduction in purchase order service lifecycle can help the CPG Company improve sales without any additional costs. Different activities involved in order processing that create a road block include:
  - ▶ Supplier and retailers are not aligned resulting in order processing errors
  - ▶ Many-to-one mapping of SKU & EAN codes
  - ▶ Timing of order receipt
  - ▶ Less than case order
  - ▶ Delivery appointment (Fixed days of service)

**Impacts of Volatile Commodity Markets on Cost Structure:** Volatile commodity prices result in variations of cost structures, which influence

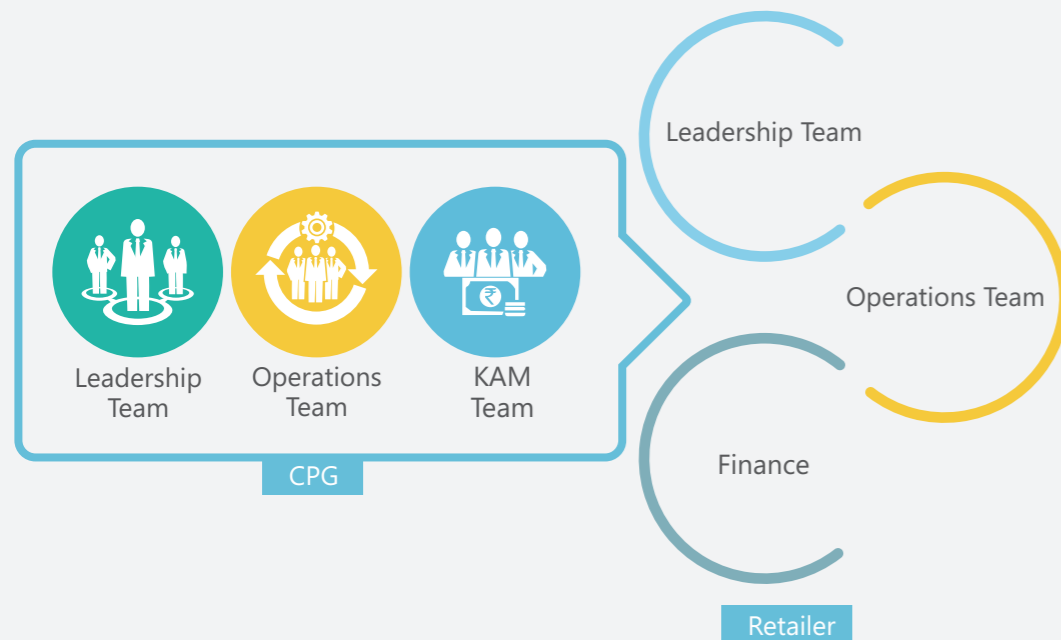
product pricing and margins. Huge demand variation results in unplanned procurement and in turn raw materials cost increase.

**Business Transparency and Visibility:** Almost all CPG companies face the issue of reactive information visibility across hierarchy leading to difficulty in taking on-time right decisions. Majority of interactions between CPG companies and retailers are not based on realtime information.

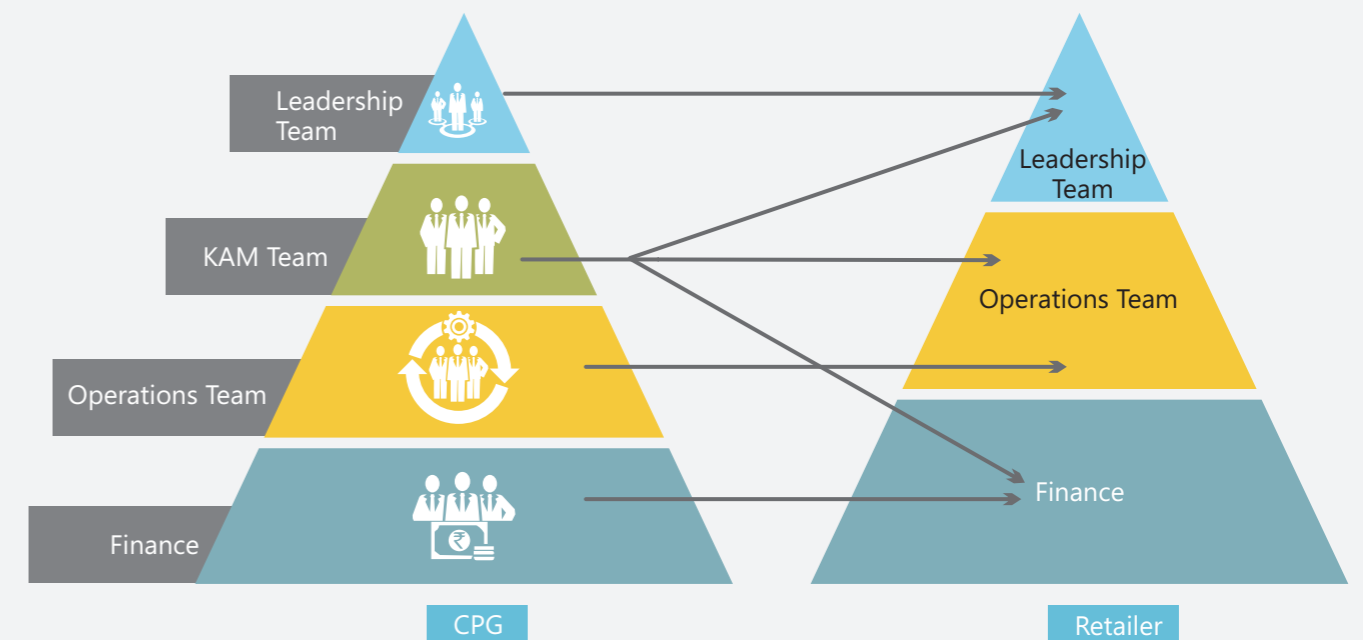
**Data Reconciliation, Analysis, and Strategy Execution:** CPG companies in emerging markets are in a state of "Analysis Paralysis". Due to lack of proper workflow systems and because most information exchange is carried out through emails, analysis is generally done manually or through primitive tools. This makes data reconciliation almost impossible, and thus dilutes the level of ownership. On the other hand, in developed markets, real-time information flow and proper dashboards help in efficient and accurate data analysis, resulting in effective strategy execution.

**Responsiveness to Opportunities:** High level of centralization makes business inflexible and reduces agility, increasing response time to any new opportunity including promotions planning & execution and liquidation schemes. With decentralized structures, quick information flow can enable faster decision-making and collaboration with retailers at a regional level.

**Organizational Alignment:** The following two snapshots define the alignment maturity between CPG companies & retailers in emerging markets compared to developed countries. In developed markets, engagement is prominent at the senior leadership, operational and support functions levels. In emerging markets, the key accounts management (KAM) teams of CPG companies interface with multiple teams of retail companies.



Emerging Markets - Organizational Alignment



Developed Markets - Organizational Alignment

## RETAILERS

### Customers:

- Customers are becoming highly demanding and their preferences are evolving rapidly because of ubiquitous connectivity and mostly due to ease of information access through electronic platforms leading to
- Increased consumer focus on value.
- Convenience on priority.
- Reference points for price and quality have changed.

**Challenging Margin Structure:** Retail margin structures are lower in developing markets than developed markets, especially in grocery segment.

**Assortment Planning and Execution:** It is important for the retailer to ensure appropriate assortment is maintained at the stores based on the needs of target customers.

- Assortment: Every large retailer handles an assortment size of 20,000- 100,000 SKUs. In this

scenario, there are about 20 percent of SKUs that contribute to 80 percent of the business - making it imperative for SKUs to not run out of stock at any point of time. To effectively deal with this, they need the support of suppliers to have on time, in-full delivery.

- Promotional Plans: Shoppers marketing programs are as important for the retailers as they are for CPG companies. This is because the strength, timing, and execution of them decide the velocity of sell-out that occurs at individual outlet levels.
- Merchandising Support: Merchandising support from the supplier leads to multi-fold improvement in per-employee productivity of retailers, contributing directly to the bottom line.



## COMMON FOR CPG COMPANIES & RETAILERS

**Rapidly emerging competition:** With the retail sector almost reaching to a low single digit growth rate in developed markets, more and more international players are targeting emerging markets where organized trade penetration lies between 5 to 20% of the overall retail sector. Entry of new players - both domestic and international increases competition in each product segment, leading to huge margin pressures for both existing retailers and as well as CPG companies.

**Evolving distribution channels:** New distribution channels like e-tailing and mobile commerce are evolving very fast and gaining market share from traditional channels like store retailing. Developing markets have a combination of both modern trade, where organized players operate chain of stores and general trade, comprising of traditional mom and pop stores. This is giving effect to heightened competition among retailers and highly complex multi-tier supply chain system for CPG companies.

**Feedback:** Extensive digitization has empowered the customers to share their negative feedback across geographies in no time; creating a possibility of brand value erosion in a matter of days.



Figure: Challenges for CPG companies & Retailers leading to Collaboration



# THE COLLABORATION JOURNEY

In emerging markets like India, where organized retail constitutes to less than 15 % of the overall market, the journey of collaboration has been slow and has gained momentum only in last decade. In developed markets like the USA, Hong Kong, and the UK, collaboration has reached higher levels of maturity.

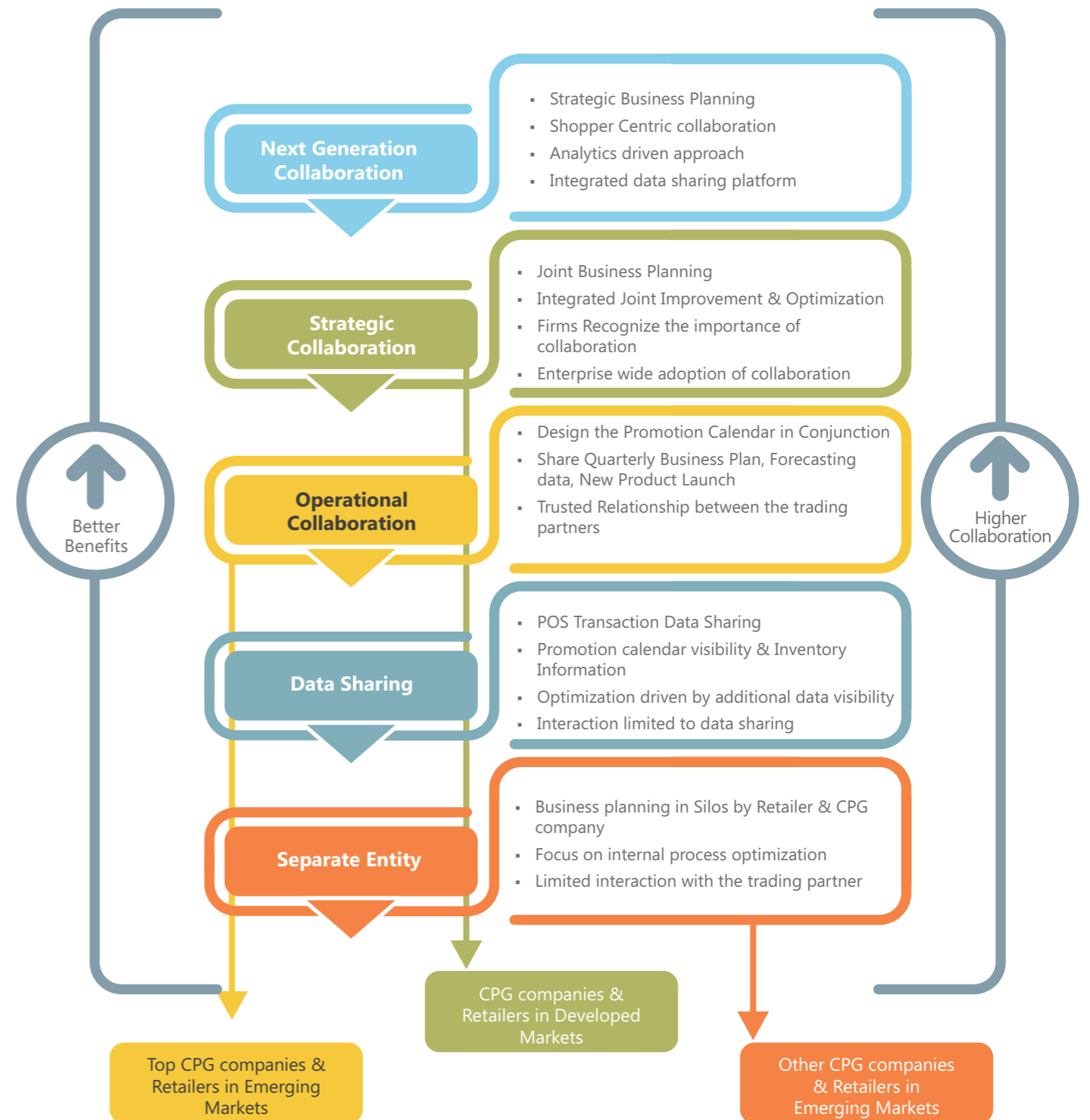


Figure: Stages of Collaboration of CPG companies & Retailers

## COLLABORATION

**Philosophy of Collaboration:** To maintain an understanding between CPG and the retailer to engage in a partnership that enable superior supply chain orchestration.

### Tools & Techniques for Collaboration:

- **POS Data Sharing:** POS sales data sharing can result in better demand estimation, generation of shopper insights, better understanding of promo effectiveness, SKU rationalization and assortment optimization. Product and shopper behavior understanding of CPG companies and local consumer understanding of retailers can be juxtaposed to arrive at optimized assortment at every retail outlet. Single forecast at retail outlet level based on POS sales data can drive the entire supply chain instead of independent forecasts of CPG and Retail companies.
- **Vendor Managed Inventory:** Vendor managed inventory will provide greater flexibility to the CPG company to replenish stock. Retailers provide CPG companies with a location to keep

the inventory and the CPG company manages display and replenishment of stock on a regular basis.

- **Supplier Portal:** Supplier portals of retail companies publish information of store level assortments and stock data. Supplier portals facilitate seamless information from retailers to CPG companies. Such information enables better planning on both the sides.
- **Demand Driven Supply Network:** DDSN enables store level demand to drive the entire supply network so that supply chain can react to the true demand and ensure higher availability levels coupled with lesser supply chain costs.
- **CPFR:** CPFR facilitates joint planning of promotions, new product launches, and collaborative demand estimation to ensure higher shelf availability.

## INDUSTRY GOOD PRACTICES

Let us look at activities different industry leaders initiate for better collaboration and creating a profitable business ecosystem:

Order to cash process	<ul style="list-style-type: none"> <li>• Electronic data interchange for order capture (Retailer to CPG) results in low error rate &amp; minimal manual interventions</li> <li>• Automated masters update</li> <li>• EAN based order processing</li> <li>• Automated claims management process reducing the claims processing time to less than 15 days post activity.</li> </ul>
Co innovation & production	<ul style="list-style-type: none"> <li>• CPG companies produce private label goods for the retailers, thus enhancing production efficiency &amp; managing costs</li> </ul>
Eliminating intermediary costs	<ul style="list-style-type: none"> <li>• Direct stores delivery model</li> </ul>
Real time information analytics & dynamic planning and forecasting	<ul style="list-style-type: none"> <li>• Reducing volatility induces costing through IT enabled perfect stores.</li> </ul>
Identifying and pursuing the right solution platform and engaging the right set of retail partners.	<ul style="list-style-type: none"> <li>• Superior shopper marketing programs make the solution obvious, capture shoppers' attention, and help them visualize its value beyond just pricing.</li> <li>• Focus on simple, concise messaging and content.</li> <li>• Multimanufacturer solutions for value added services to customers</li> </ul>
Organizational alignment	<ul style="list-style-type: none"> <li>• Joint promotional planning</li> <li>• Volume plans basis scientific tools &amp; methodologies</li> <li>• Joint audit exercise for program compliance</li> <li>• Investments in training &amp; development for improving per employee productivity</li> <li>• Joint supply chain planning basis scorecard methodologies</li> </ul>

The chart below highlights the summary of activities that CPG companies & retailers can jointly conduct and create a win-win situation for all the stakeholders.

 <p><b>Planning</b></p>	<ul style="list-style-type: none"> <li>▪ System Based Joint Business Supply chain Plans</li> <li>▪ Automated Promotions Planning</li> <li>▪ Sales Volume Planning</li> <li>▪ Alignment of Estimates to SNOP Process</li> <li>▪ KPI scorecards</li> <li>▪ Joint New Product development Process</li> </ul>			
 <p><b>Operations</b></p>	<ul style="list-style-type: none"> <li>▪ Assortment &amp; Category Management</li> <li>▪ Product Positioning</li> <li>▪ Identify potential new product</li> <li>▪ Localized Assortment</li> <li>▪ Retail execution</li> <li>▪ Shelf level merchandising</li> <li>▪ Shelf Space Optimization</li> </ul>			
 <p><b>Advanced Analytics</b></p>	<ul style="list-style-type: none"> <li>▪ Identification of customer segments</li> <li>▪ Sharing shopper insights</li> <li>▪ Target relevant customer segment</li> <li>▪ Analyze promotion performance</li> </ul>			
 <p><b>Supply Chain</b></p>	<ul style="list-style-type: none"> <li>▪ Collaborative Planning, Forecasting and Replenishment</li> <li>▪ High Fill Rates</li> <li>▪ Inventory optimization</li> <li>▪ Dynamic Inventory norms calculation</li> <li>▪ Robust Direct store delivery for OOS minimization</li> <li>▪ Lean Inventory implementation</li> <li>▪ Master Data Management</li> </ul>			
 <p><b>Finance</b></p>	<ul style="list-style-type: none"> <li>▪ Centralized</li> <li>▪ Terms of Trade (TOT) Management</li> <li>▪ Scheme Management</li> <li>▪ Automated</li> <li>▪ Budget Approval System</li> <li>▪ Claims processing system</li> </ul>			
 <p><b>Visibility</b></p>	<table border="0"> <tr> <td data-bbox="498 1801 756 2011"> <ul style="list-style-type: none"> <li>▪ <b>Sales</b></li> <li>- New Launch Tracker</li> <li>- Promo Sales Tracker</li> <li>- Sales Tracker</li> <li>- Sales Return tracker</li> <li>- Schemes Summary</li> </ul> </td> <td data-bbox="786 1801 1113 1906"> <ul style="list-style-type: none"> <li>▪ <b>Finance</b></li> <li>- A/c Receivables &amp; Payables</li> <li>- Claims Status /Ageing</li> </ul> </td> <td data-bbox="1142 1801 1368 1948"> <ul style="list-style-type: none"> <li>▪ <b>Supply Chain</b></li> <li>- Fill rate</li> <li>- Ageing &amp; Shortage</li> <li>- PO life cycle capture</li> </ul> </td> </tr> </table>	<ul style="list-style-type: none"> <li>▪ <b>Sales</b></li> <li>- New Launch Tracker</li> <li>- Promo Sales Tracker</li> <li>- Sales Tracker</li> <li>- Sales Return tracker</li> <li>- Schemes Summary</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Finance</b></li> <li>- A/c Receivables &amp; Payables</li> <li>- Claims Status /Ageing</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Supply Chain</b></li> <li>- Fill rate</li> <li>- Ageing &amp; Shortage</li> <li>- PO life cycle capture</li> </ul>
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## HOW ITC INFOTECH CAN HELP RETAILERS & CPG COMPANIES REALIZE VALUE

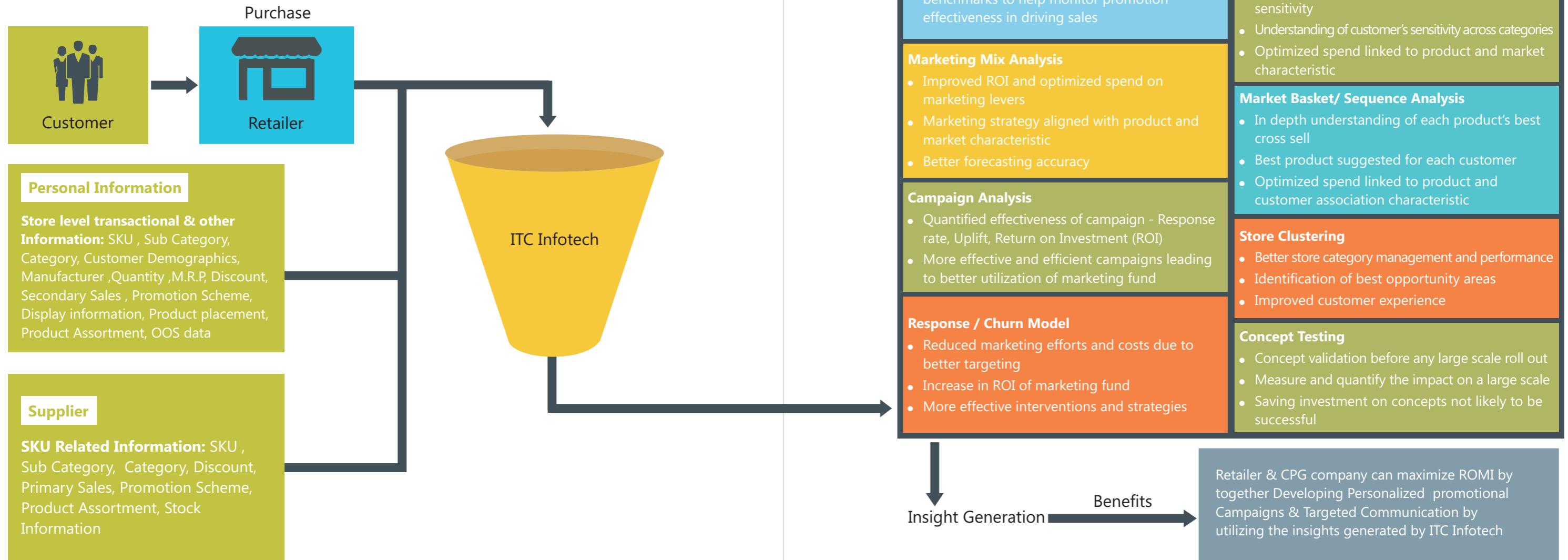
ITC infotech has over a period developed deep expertise in the field of Advanced Analytics. With a team of Data Scientists, Retail & CPG Domain experts, ITC Infotech brings a converging flavor of both Business & Technology working to conceptualize design and deliver business friendly client solutions that are rooted to the practical. We work closely with customers to deliver superior business performance, with a strategic perspective on business process improvement and IT enablement. Our consultancy solution portfolio and domain expertise are ideally placed to meet the emerging needs of the CPG industry, helping businesses achieve targets. We define our client's basis their maturity in adopting the collaboration framework as depicted below and advise them to cover the journey from Initial stage to high level collaboration at People, Process & Technology level in a scientific manner.

## RETAILER-CPG COLLABORATION MATURITY FRAMEWORK



# HOW ITC INFOTECH CAN CREATE VALUE:

## ADVANCED ANALYTICS COMMAND CENTRE

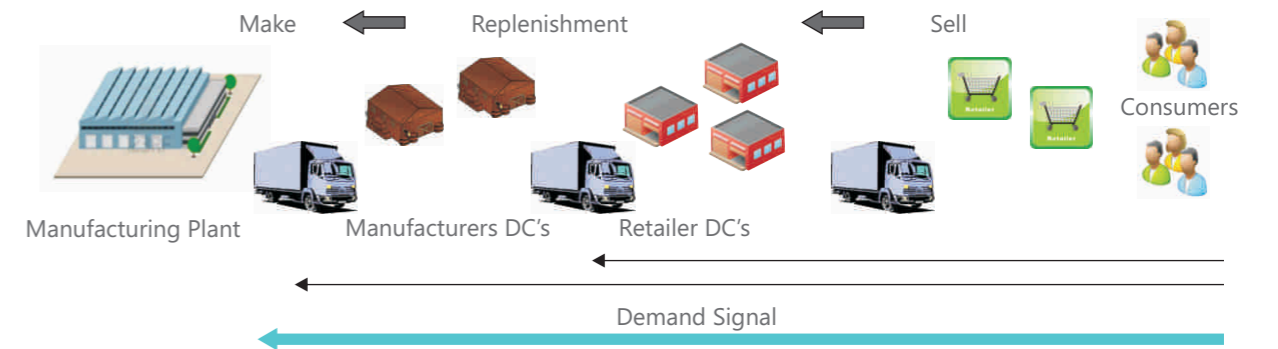


# SET UP PARTNER INTEGRATION PORTALS

## PARTNER INTEGRATION PORTAL – PROCESS COVERAGE & BENEFITS

Process	Source to Contract Processes	Procure to Pay Processes	Plan Collaboration	Reporting & Analytics	Product & Promotions
Functionality	<ul style="list-style-type: none"> <li>Contracts process management</li> <li>Contract management</li> <li>Sourcing process management</li> <li>Catalogue management</li> </ul>	<ul style="list-style-type: none"> <li>RFQ's &amp; quote management</li> <li>PO management</li> <li>Invoicing &amp; accounts payable</li> <li>Mobile enablement</li> </ul>	<ul style="list-style-type: none"> <li>CPFR plan</li> <li>Collaborative product design</li> <li>New product introduction</li> <li>Kanban loop</li> <li>Collaborative promotion planning</li> </ul>	<ul style="list-style-type: none"> <li>Compliance monitoring /reporting</li> <li>Supplier performance management</li> <li>Operational reporting</li> <li>Analytics</li> </ul>	<ul style="list-style-type: none"> <li>Product development workflows &amp; timelines</li> <li>Product &amp; Store promotions</li> <li>Price &amp; Cost mgmt</li> <li>Promo budgeting &amp; Spend Mgmt</li> <li>Quality Mgmt</li> </ul>
Information	<ul style="list-style-type: none"> <li>Supplier master data</li> <li>Supplier maintained profile</li> <li>Contracts</li> <li>Catalogue trail</li> </ul>	<ul style="list-style-type: none"> <li>Supplier transaction setup</li> <li>Quotes, history &amp; trails</li> <li>Transactional history</li> </ul>	<ul style="list-style-type: none"> <li>Project plans, processes, milestones, closure details</li> <li>Project communication trails</li> </ul>	<ul style="list-style-type: none"> <li>Audit trails</li> <li>Supplier performance reports, communication trails, improvement plans</li> </ul>	<ul style="list-style-type: none"> <li>Plan compliance</li> <li>Quality compliance</li> <li>Promo Plan &amp; Effectiveness</li> <li>Audit Trails</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>Lower transaction costs</li> <li>Faster decision making</li> <li>Lower sourcing costs</li> </ul>	<ul style="list-style-type: none"> <li>Increase in on-shelf availability</li> <li>Shorter lead times</li> <li>Lower transaction costs</li> <li>Lower lost sales</li> </ul>	<ul style="list-style-type: none"> <li>Informed &amp; Faster decision making</li> <li>Higher sales off-take</li> <li>Optimized inventory</li> </ul>	<ul style="list-style-type: none"> <li>Faster speed to market</li> <li>Managed Promo spends</li> <li>Improved product quality &amp; compliance</li> </ul>	

# ESTABLISH DEMAND DRIVEN SUPPLY NETWORK



## ORDER PROCESS OUTSOURCING BASIS SHARED SERVICES MODEL

ITC Infotech has developed a capability under which we can manage the entire order processing in an offshore environment and ensure streamlining and standardization of processes with the following motive:

### Increased Efficiency in Order Processing

- Breakaway from distributed method of order processing
- Reduction in delays in order processing
- Single team processing orders resulting in continuous improvement
- Checks and balances resulting in reduction in manual errors

### Analytics driven improvement

- PO tracking resulting in end-to-end visibility of the PO
- Issue log maintained and daily resolutions of errors. Reports on issue log

### Improvement in Fill rates

- SLAs for the processing team resulting in high accountability and leading to improvement in fill rates
- Escalation matrix and issue log ensuring that loss in fill rates is reduced

# DEFINE COLLABORATIVE NEW PRODUCT DEVELOPMENT PROGRAMS



Illustrative process

## CONCLUSION

CPG companies and retailers face multitude of challenges to retain consumer franchise. Highly informed customers and rapidly evolving competition challenge these players to work closely to retain competitiveness. Collaboration between CPG and retail companies has reached a high maturity level in western economies like the USA, Europe and in some eastern economies like Hong Kong. In emerging markets, collaboration has just begun and is mainly at the operational level. Learnings from developed markets can be quickly adopted in developing markets to take the collaboration to higher maturity level to derive better benefits. Collaborative working of retail and CPG companies can result in higher shelf availability, relevant assortment, lower supply chain cost, and lower product obsolescence.

## AUTHOR

**Venkata Krishna Velugubanti** is Global Practice Leader-Retail Industry at ITC Infotech, Business Consulting Group. He holds a degree in Management with M.B.A in Marketing with more than 15 years of experience. His areas of expertise include profit centre management, setting up retail chains, managing merchandising and retail operations, category management, advising global retailers in the areas of process reengineering and implementation of technology solutions. He managed operations of rural retail chain with key focus on financials, team management and performance management. He worked with global retailers in transformational programs in the areas of POS, Supply Chain, Order Management, Visual Merchandising, Master Data Management.

**Abhinav Verma** is Senior Associate Consultant at ITC Infotech, Business Consulting Group, specializing in CPG domain. He holds a degree in Management Science with M.B.A in Marketing & Finance with 10 years of experience in Territorial business planning & Logistics, Customer Analytics, ROI management, Profit centre management, Risk Management, Vendor development & Procurement, Key Account mgmt & Quality management in CPG sectors. He has built comprehensive Financial Benchmarking models, Redesigned the Demand estimation & Promotional Planning process, Set up the SOPs for Centralized Order Processing system & SKU rationalization and created Process Blue print for Distributor Management System (DMS) for CPG Sector companies.

