



The Case for ECR

**A review and outlook of continuous ECR adoption
in Western Europe**

2005

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Foreword

In 2004, ECR Europe was preparing to celebrate its 10th anniversary. It had been ten years since predictions had been made of substantial benefits which could be derived from adopting Efficient Consumer Response in Europe.

Those of us, who have been working actively in the industry in the area of retailer and supplier collaboration, know that our companies have experienced benefits from adopting a more collaborative approach, but has this benefit been achieved universally and to what degree can more benefits still be derived from ECR?

The ECR Europe Board commissioned the Academic Partnership and IBM Global Business Services to carry out a dispassionate review of ECR achievement in Europe, to report the progress which had already been made and to estimate the further benefits which could be achieved. Moreover, the Board wanted an independent view of what made a successful ECR adoption in order to help companies continue in their quest for ever more consumer benefits.

We are delighted to present this report, which not only contains estimated of the benefits derived from ECR as well as its further potential, but also presents the distillation of many case studies which have yielded the keys to successful ECR adoption. We would like to thank the co-authors of this report and express our appreciation for all the companies and academic institutions who have taken part in this exercise.

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Contents

1.	Acknowledgements	4
2.	Introduction	5
2.1.	ECR – Early Expectations	6
2.2.	ECR – Case for ECR, the study	7
3.	Measuring ECR Adoption	8
4.	ECR Accomplishments	15
4.1.	ECR – Overall Benefits	16
4.2.	ECR – Consumer Benefits	24
4.3.	ECR – Supplier Benefits	27
4.4.	ECR – Retailer Benefits	30
4.5.	ECR – Relationship Benefits	34
5.	ECR Adoption	37
5.1.	ECR – Adoption Strategies	37
5.2.	ECR – Adoption Barriers	42
5.3.	ECR – Impact on Market Conditions	51
5.4.	ECR – Impact on Business Standards	55
5.5.	ECR – Limitation	60
5.6.	ECR – Change Management	62
6.	Recommendations	63
6.1.	Get the Fundamentals Right	64
6.2.	The ECR Implementation Pyramid	64
6.3.	Recommendations for Industry Programmes	66
7.	Conclusions	67
	Appendix A Participants to the Case for ECR Study	70
	Appendix B	
B.1.	ECR Definition	73
B.2.	ECR Adoption – the Use of the Global Scorecard	73
	- Demand Side - Adoption Measures – a definition	75
	- Supply Side Adoption Measures - a definition	77
	- Enablers Adoption Measures – a definition	79
	- Integrators Adoption Measures – a definition	81
	- Key Performance Indicators – a definition	82
B.3.	Debate over the Global Scorecard	83
	Appendix C	
C.1.	Case Studies from France	86
C.2.	Case Studies from Germany	94
C.3.	Cases Studies from Greece	96
C.4.	Case Studies from Italy	101
C.5.	Case Studies from Spain	106
C.6.	Case Studies from Switzerland	108
C.7.	Case Studies from the UK	111

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The Case for ECR **A review and outlook of continuous ECR implementation** **in Western Europe**

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2. Introduction

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 being a set of improvement initiatives which would allow 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 prices.

Ten years of ECR adoption experience have created a wealth of knowledge on how to make ECR adoption a success. Over these ten years ECR Europe has created an entire library of best practice guides, but the question has remained: “Have these best practices been adopted fully, and if not, why not?”. In 2004, in preparation for the 10th anniversary ECR Europe Conference, the ECR Europe Executive Board decided to commission a study to determine how far the industry had progressed in adopting ECR in Western Europe and the extent to which these predictions had been met.

Two institutions were assigned by ECR Europe to conduct this study: IBM Global Business Services and the ECR Europe Academic Partnership, which coordinated 5 academic institutions to conduct the research on its behalf:

- Athens University of Economics and Business, Eltrun, Greece
- Cardiff University, Lean Enterprise Research Centre, UK
- University IULM, Chair of Marketing, Italy
- University of St.Gallen, Kuehne-Institute for Logistics, Switzerland
- WHU, Chair of Production Management, Germany.

Consequently, a series of interviews, value chain analysis studies and research were run to answer the following questions:

1. How far has the industry progressed in adopting ECR in Europe?
2. What benefits have been achieved?
3. What benefits still remain to be derived from ECR?
4. What strategies have successful companies applied in adopting ECR?
5. How can the adoption of ECR in the future be accelerated?

While the objective of this study is easy to understand, the scale of the undertaking has been substantial:

- ECR is probably the biggest actively coordinated inter-industries re-organisation ever on this planet. It has become an important topic for most of the thousands of companies in the consumer goods and retail business around the world.
- We have all learned of the complexity and the lengthy process of re-organising activities in our own companies - How difficult must it be to reorganise an entire industry?

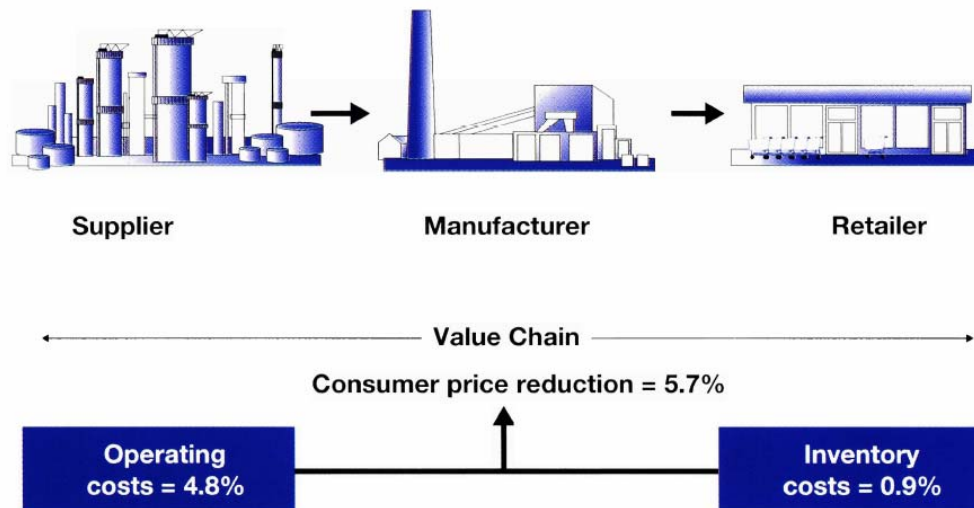
Over 50 retailers and manufacturers across Europe participated to this research and allowed the insights outlined in this document.

The first results of this research was presented at the ECR Europe Conference held in Paris in 2005. We are pleased to present them in more detail in this report.

2.1 ECR - Early Expectations

A number of leading European retailers and manufacturers agreed to take part in Coopers & Lybrand's 1995 Value Chain Analysis, analyzing the companies' cost structure, on an activity basis. Based on a Value Chain Analysis model, the amount of cost and inventory saving that the company could realize through adopting collaborative ECR processes was predicted.

The results for the individual companies were amalgamated to produce an overall assessment for the industry in Europe. The results were summarized in the diagram below:



They estimated that the industry could save 4.8% of operating costs plus reduce existing inventories by around 42%, equivalent to saving another 0.9% of operating costs, making a total available cost saving of 5.7%.

Transport optimization was not considered as part of the original Value Chain Analysis study. However in 1999, the ECR Europe Board commissioned the University of St.Gallen to conduct a Transport Optimisation Study. This study found that an additional saving of about 1.2% of consumer sales value could be achieved by optimizing the way that transport was managed so as to reduce the quantity of empty trucks on the road and improve vehicle fill.

We have therefore defined that the original total cost saving available to the industry was $5.7\% + 1.2\% = 6.9\%$. The 2005 Case for ECR was set to assess if these cost saving have been achieved.

In addition, the 1995 Value Chain Analysis study did not attempt to quantify the benefits to be derived from additional growth, although it was recognized that if trading partners worked together on adopting ECR principles in the area of demand management then additional growth should be generated.

Over the years, a large number of case studies have been reported at the annual ECR Europe conferences. In just about every case, it has been demonstrated that this level of benefit is easily achievable, and in many cases the benefits achieved actually surpassed those predicted in the Value Chain Analysis study.

Yet, what can be or has been achieved by individual companies does not allow for an overall industry perspective. This is what this report tries to establish, reviewing ten years of ECR practices across Europe.

2. 2 Case for ECR

The study

This study attempted to generate a holistic impression on the status of ECR adoption, its achievements, adoption strategies, and future opportunities - for the geographical region of Western Europe. The authors of this study have compiled and critically reviewed the extensive material on ECR that has been made public until to date, and, in addition, have conducted own research.

The study was run in five different sub projects.

1.) Analysis of the ECR adoption level and its impact on performance based on the Global Scorecard database

The analysis of the world's most comprehensive database on companies' ECR adoption levels and business performance indicators aimed at identifying patterns as well as finding scientific evidence that ECR adoption impacts business performance. In 2001, multiple international and national ECR organisations and the Global Commerce Initiative (GCI) institutionalised the compilation of company data from around the world on ECR adoption levels and on business performance. This data is collected mainly online (www.globalscorecard.net) through a standardised questionnaire (the Global Scorecard) and is stored in the Global Scorecard database, which is administrated by IBM.

At the time the analysis was run, the database contained a total sample of 908 records from around the world entered during the timeframe of August 2001 until February 2005. Appendix A explains the questionnaire, i.e. the Global Scorecard. Chapter 4 gives further details on the analysis and its results. This subproject was run by the team of the University of St.Gallen.

2.) Analysis of the ECR adoption and its impact on performance based on case studies

To gain better understanding of ECR adoption, its drivers and barriers, the applied adoption strategies, the adoption histories, the benefits realised as well as emerging themes and patterns, case studies were analysed. In addition to the already published ones a series of 37 new case studies were generated. Some of these were based on the information from one partner only, others ideally combined the two partners' perspectives. The case studies used focused each on a specific retailer-manufacturer relationship in a specific category.

The case studies cover seven major countries in Western Europe and include 13 different categories, 31 different suppliers and 19 different retailers, both of different company size and importance in the market, making this a representative sample. The creation of the case studies was also based on the Global Scorecard and enriched by in-depth interviews with the companies' senior managers and with those employees who got highest hands-on experience from working in the respective cases. Finally, the companies provided hard performance figures out of their IT systems.

This subproject was run by the different universities for specific countries:

- Athens University of Economics and Business for Greece,
- Cardiff University for the UK,
- Università IULM for Italy,
- University of St.Gallen for France, Spain and Switzerland, and
- WHU for Germany.

3.) Analysis of ECR adoption's impact on companies' cost structure based on case studies

In parallel a Value Chain Analysis was conducted on a number of retailers and manufacturers using an activity-based cost model. This enabled us to gauge the benefits already achieved

and more importantly to evaluate the size of the improvement opportunity available and arrive at industry level generic projections.

This subproject was run by the team of IBM Business Consulting Services. The IBM team worked with four companies to analyse their cost structure on an activity basis. The results were consolidated with IBM's industry models to create an overall view of the industry. This was then combined with the impact analysis to give an estimate of the future benefits of ECR in Europe.

4.) Analysis of the macro-economic environment of ECR adoption

The development of ECR adoption and the results realised through ECR can only be interpreted in the light of the overall economic context. Economic databases provided by national and the European statistical offices as well as by re-known commercial service providers were the sources for the data used in the study. In addition, multiple manufacturers supplied category-specific and retailers retail-specific data. Market research companies and some manufacturers contributed comprehensive data on shopper evaluation of different retail channels, some leading ECR adopters, some re-known non-adopters. This subproject was run by the team of the University of St.Gallen with some support by AC Nielsen.

5.) Drawing the overall conclusions from and reporting the study

The final step was to combine the different results and to draw conclusions. Many patterns have been identified. These were refined and confirmed in discussions with numerous leading industry experts from manufacturers, retailers, third parties, associations, as well as national and international ECR organisations.

3. Measuring ECR Adoption

In measuring ECR adoption, we need to consider “what” it is that ECR is trying to influence and then “how” that is achieved.

- The “what” refers to business performance and it is measured with a limited set of Key Performance Indicators. A company can record its KPIs and then ask itself: “Are we satisfied with the results?” If the answer is “yes”, there is no need for further action; if no, then they need to consider how the performance could be improved.
- The “how” shows how a company can improve its capability to adopt ECR practices in various areas of Demand and Supply. An improvement in the adoption of ECR working practices is consider to lead to business performance improvement.

In measuring the “what” and the “how” we can determine the extent to which ECR capability is improving in Europe together with the improvements in business performance as measured by the KPIs.

For our analysis we have chosen to use as a starting point the ECR Scorecard, a tool which was developed in 1996 to allow companies to measure their progress in each of the initiatives jointly developed through ECR.

Over 900 companies have already completed the ECR Scorecard for their business and made the results available to the global Scorecard database run by IBM (<http://www.globalscorecard.net/>)

The Global Scorecard's ECR adoption measures are illustrated below.



The data analysis, ran in March 2005, was based on the database's full sample of 908 records in total, covering the time range of August 2001 until February 2005. However, most of the records have been entered in 2004, making the analysis a good snapshot of the current ECR adoption status. To date, over 1'000 records from around the world are stored in the database: 33% of the 908 records are from Western Europe, 5% from Eastern Europe, 8% from North America, 12% from Latin America, 22% from Asia, 15% from Australia, and 6% from Africa (Exhibit 3.1).

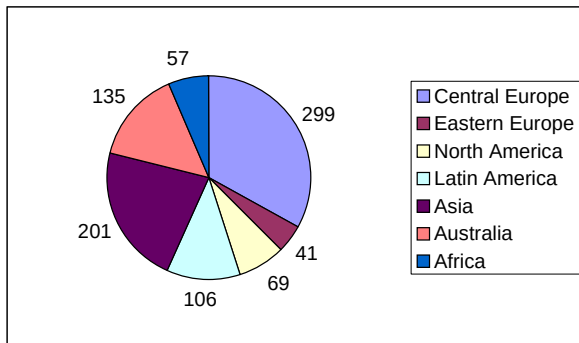


Exhibit 3.1: Distribution of the data sample by geographic origin

To identify the ECR adoption and business performance levels, the analysis focused on the 299 cases from Western European countries. In this sub-sample, the countries for which the most records were available are the United Kingdom (17%), France (11%) and Germany (11%). The distribution of the sample by country is depicted in exhibit 3.2.

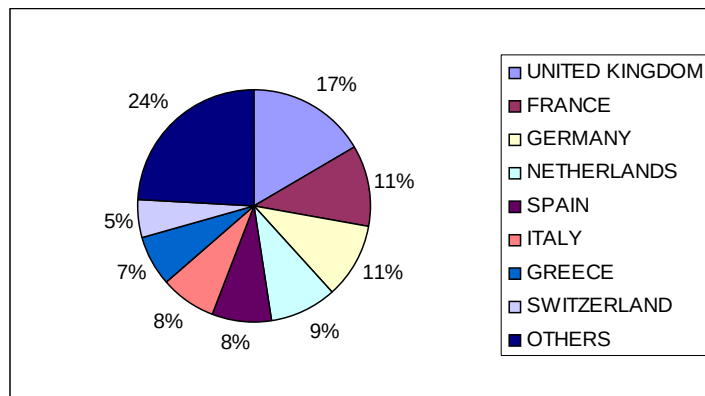


Exhibit 3.2: Distribution of European Countries in the sample

80.9% of the European records were entered by manufacturers, 18.7% by retailers. This represents well the concentration in the market. The number of retail companies is much lower than the number of manufacturers. Looking at the product categories one can notice the concentration effect again. Almost two thirds of the companies in the sample trade or produce core grocery products. These are the categories with many small and medium sized manufacturers. Health and beauty (12%) or drinks (7%) are categories which are dominated substantially by multinational manufacturers of which many are actively involved in ECR organisations.

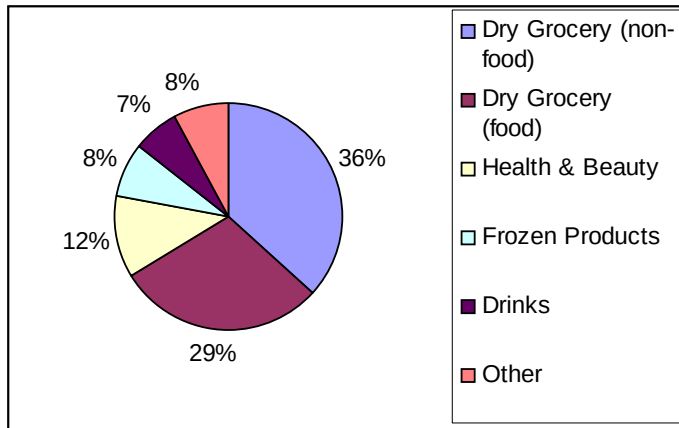


Exhibit 3.3: Product category of the companies in the sample

On average, the responding companies in Western Europe have adopted 57.5% of the ECR concepts. 95% of the European companies report an ECR adoption level of between 16.8% and 81.7%. Compared to other world regions, Western Europe reports the highest mean for total ECR adoption. Exhibit 3.4 shows the overall ECR adoption levels for Western Europe, in total and separated by concept areas.

The ECR adoption level in Western Europe is highest for the demand side with a mean of 62.3%. 95% of the respondents are in a range between 34.6% and 90%. There are many signs that suggest that this is caused to a large extend by the meanwhile broad adoption of Category Management.

The supply side shows a very diverse picture of adoption. The range in which 95% of the respondents are found starts as low as 4.3% and goes up to 95.0%. The mean is a balanced 53.7%. Yet, this result is not surprising. The adoption of collaborative practices on the supply side requires investments into the physical supply chain. Consequently, in all regions where the supply side is highly fragmented companies struggle in adopting ECR.

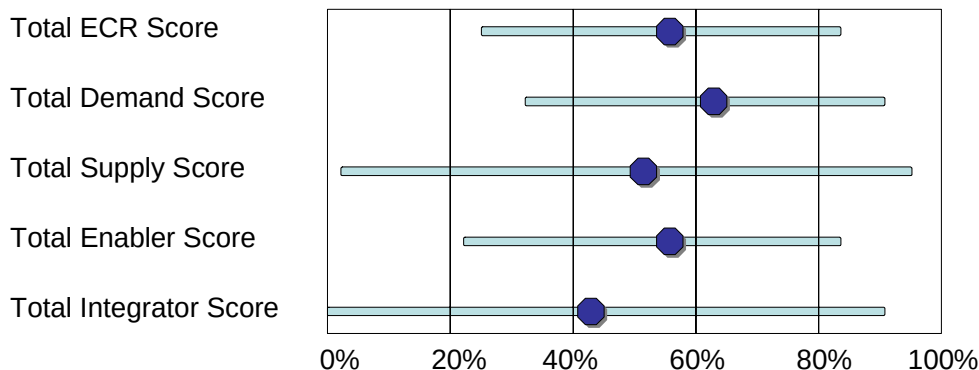
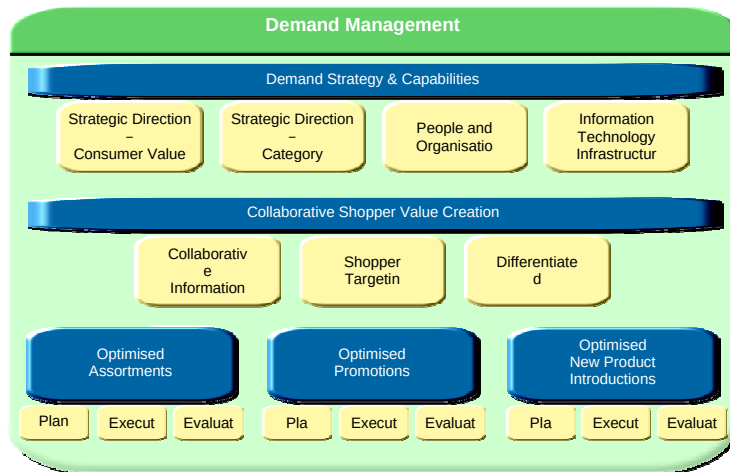


Exhibit 3.4: European Adoption levels and 95% range: Total ECR

The ECR adoption level of the enablers is on average 57.5% and more consistent throughout the sample. 95% of the responding firms have adoption levels between 23.9% and 86.3%. The adoption of business standards is increasingly understood as mandatory requirement for business success. Many companies keep up with the developments of the national and international standardisation organisations (i.e. GS1).

ECR's integrator concepts are the least adopted with a mean of 43.8%. However, the responses vary substantially. 95% of the respondents' adoption levels range from no adoption at all (0%) to 92.8%. This result underlines that many companies are still unsure how to understand and how to adopt the integrator concept. Not only the CPFR concept (collaborative planning forecasting and replenishment) but also the activity-based costing approach are still controversial topics of debate in business practice.

DEMAND SIDE



The analysis by country of the adoption of ECR demand side concepts shows a more homogenous picture (exhibit 3.5)¹. The countries for which the highest adoption level averages are found are France (mean of 69.3%), Germany (mean of 68.8%) and Greece (mean of 67.3%). With a mean of 48.9% Switzerland has the lowest adoption level. The responses vary most strongly in the UK (42.2% to 81.3%) and are the most consistent in Italy (46.9% to 71.9%). In fact, many demand side cases that have been presented in public are from France, Germany or Greece. Yet, also the UK, Italy and Spain are frequently referred to in examples of demand side adoption.

Among the demand side concept elements, "Assortment Planning" is adopted the most (mean of 75%), followed by "Strategic Direction- Category Management" (mean of 72.5%), and "Strategic Direction- Consumer Value Business Model" (mean of 70%). This underlines the dominance of Category Management on the demand side. The lowest adoption levels are reported for activities concerning the innovation process: "Collaborative Shopper Value Creation - Differentiated Solutions" (mean of 55%), "New Product Introduction - Planning" (mean of 55%) and "New Product Introduction - Execution" (mean of 45%). This is in line with several surveys that have argued that the biggest unused potential in ECR remains the increased collaboration in all matters of new product activities.

¹ Because of the missing values problem, it is impossible to compare ECR adoption for all countries. For some countries the total number of companies that have sufficiently completed the scorecard is too small to allow statistical statement. This is the reason why some Western European countries (e.g. Belgium, Ireland, The Netherlands, or Sweden) remain unconsidered in this analysis.

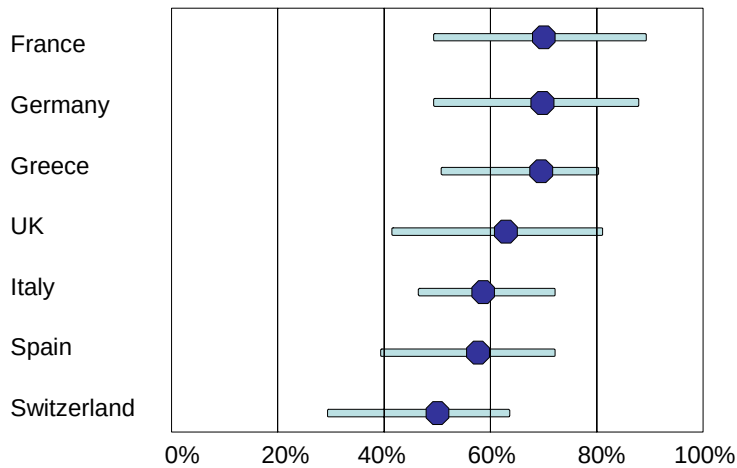
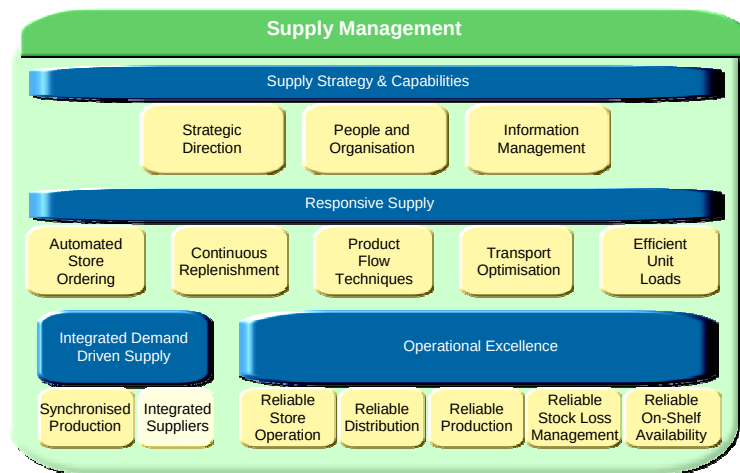


Exhibit 3.5: Adoption levels and 95% range: Demand Side

SUPPLY SIDE



The analysis by country of the adoption of ECR supply side concepts shows substantial differences by country (exhibit 3.6)². The two leading countries are Germany (mean of 72.1%) and France (67.4%). The variance of adoption levels in these countries is small. 95% of the responding companies in both countries report adoption levels between 63.3% and 76.7%. Companies of the UK, the traditional showcase country for ECR supply side adoption, have a means of 60.8%, however with a 95%-range of 41.7% to 86.7%. Greece reports the highest single adoption level and the biggest variance in the 95% range. Its mean is 57.7%, yet 95% of the responding companies are in the range of 26.7% to 95.0%. This suggests that in Greece a few companies are strong adopters of ECR supply side concepts while many other companies are either pulled with them or have little exposure to ECR. Italy reports the lowest adoption levels with a mean of 10.8%. The relatively small variance of 0% to 31.7% indicates that Italy faces structural problems in adopting ECR supply side concepts (see also chapter 6).

Among the supply side concept elements, "Reliable Production" (mean of 72.5%) as well as "Strategic Direction" and "People and Organization" (both with means of 70.0%) achieved the highest adoption levels. The lowest adoption levels are found for "Automated Store Ordering" (mean of 50%) and "Reliable On-Shelf Availability Management" (mean of 40.0%) which are the major ECR concepts to address out-of-stock problems. The low adoption level may

² Because of the missing values problem, it is impossible to compare ECR adoption for all countries. For some countries the total number of companies that have sufficiently completed the scorecard is too small to allow statistical statement. This is the reason why some Western European countries (e.g. Belgium, Ireland, The Netherlands, or Sweden) remain unconsidered in this analysis.

explain why this problem has seen little improvements of the past years. “Integrated Suppliers” is another ECR element that has been less adopted (mean of 45%) as most likely manufacturers are focused on improving their relationships with retailers first.

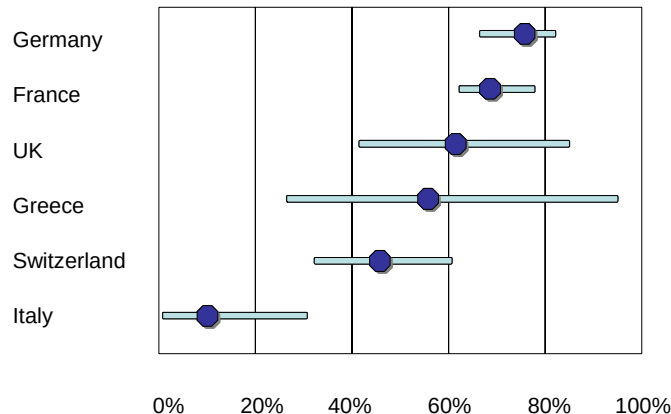
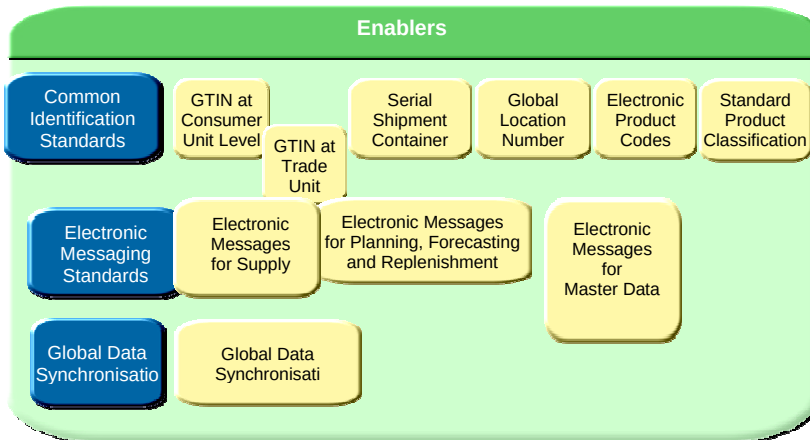


Exhibit 3.6: Adoption levels and 95% range: Supply Side

ENABLERS



The analysis by country of adoption of ECR enablers reveals that the industries' comprehensive standardisation activities have achieved considerable momentum³. Also, driven by a late 2004 call by the Global Commerce Initiative (GCI), the records in the Global Scorecard database have substantially less missing values for enablers as for other ECR concepts.

The highest adoption levels are found in Germany (mean of 67.7%), France (mean of 65.1%) and the UK (mean of 63.7%). As for the adoption of supply side concepts, Germany and France show a similar, rather consistent range of adoption (between 43.0% and 85%). Again, the picture in the UK is less consistent with a range of 31.7% to 86.3%. Countries like Germany or France, in which companies rely strongly on connected IT systems to manage their supply chains are often more eager to improve IT efficiency by standardisation than countries in which many companies work in more traditional ways (i.e. Greece) or where specific individual solutions have been adopted earlier (i.e. UK). Even less consistent than the UK is the picture for Greece. Some companies report adoption levels of 2.5%, while others are among the leaders in Europe with 77.5%. However, the mean in Greece is the lowest in Europe with 39.0%. This can be explained by the fact that in Greece some companies are

³ Because of the missing values problem, it is impossible to compare ECR adoption for all countries. For some countries the total number of companies that have sufficiently completed the scorecard is too small to allow statistical statement. This is the reason why some Western European countries (e.g. Belgium, Ireland or Sweden) remain unconsidered in this analysis.

driving ECR adoption while many other companies are still hesitant and refuse to invest (see also chapter ...

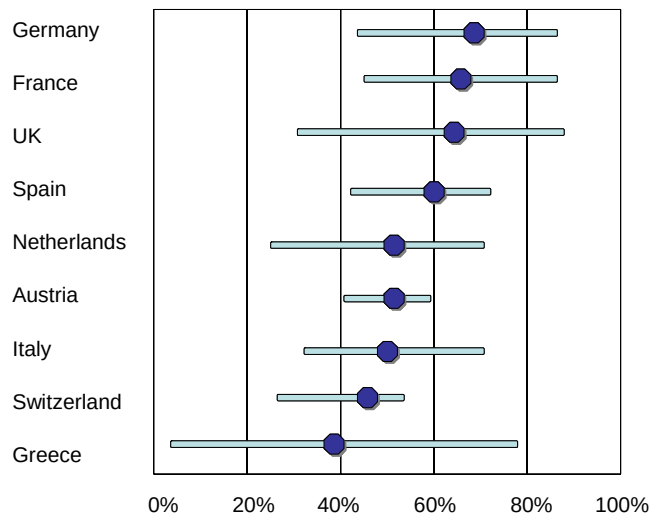
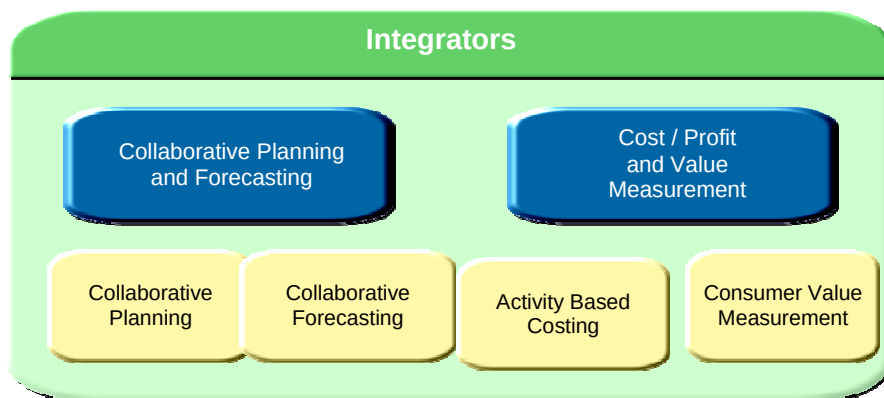


Exhibit 3.7: Adoption levels and 95% range: Enablers

Among the enablers, the highest adoption levels are found for “Global Trade Identification Number (GTIN) at Consumer Unit Level” as well as “Global Trade Identification Number (GTIN) at Trade (Case, Carton) Unit Level” (both with means of 85.0%) and “Electronic messages for supply” (means of 77.5%). The lowest adoption is reported for “Global Data Synchronisation” (mean of 37.5%), “Standard Product Classification” (mean of 35.0%) and “Electronic Product Code (EPC)” (mean of 12.5%).

ECR INTEGRATORS

The adoption generally lags behind the other ECR concepts. Also, the variance among the companies is substantial in each country. On average, Germany reports the highest adoption level (mean of 59.1%), followed by the UK (mean of 48.8%). France has the lowest mean for adoption (35.8%). The highest and also the lowest adoption examples were found in the UK (0% to 93.8%), in France (0% to 90.9%) and in Italy (0% to 87.5%). Only Greece (18.8% to 56.3%) and Germany (37.5% to 81.3%) show a more consistent picture.



The highest adoption levels are found for “Collaborative Forecasting” (mean of 50.0%), while “Consumer Value Measurement” (mean of 40%) has the lowest adoption level.

It is worth noting that there is a significant, high correlation between the adoption levels in the four different ECR concepts. Companies that report high levels of adoption on the demand

side generally report also high adoption levels on the supply side, the enablers and the integrators. Only few companies focus their adoption activities on only one ECR concept.

To interpret inter-country comparisons one might consider structural but also cultural influences. The latter influences not only how ECR is adopted in a country. The Global Scorecard measures the respondents' perception of their companies' adoption level. Some cultures tend to be conservative in self-evaluations, while others are more self-confident and tend to estimate the same adoption levels to be higher.

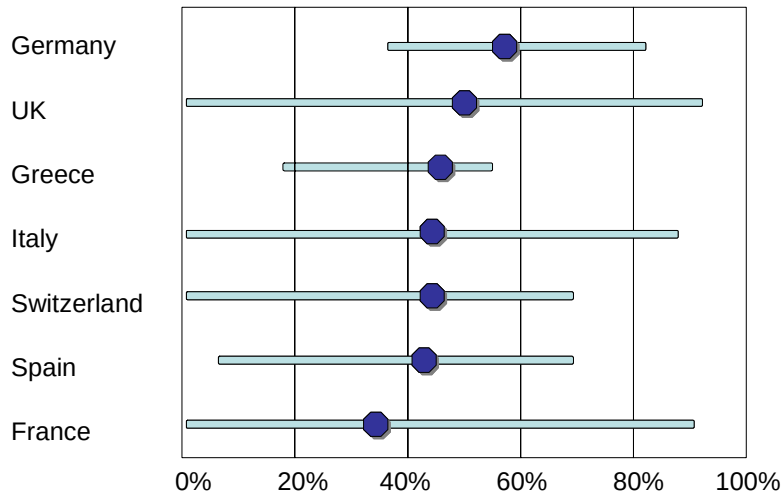


Exhibit 3.8: Adoption levels and 95% range: Integrators

Conclusions

In each country, the average adoption level of ECR is still mainly in the “pilot” stage. However, in every case, leading companies in every country have adopted ECR to the degree where it is no longer a pilot programme but has in fact become the normal way for conducting business with trading partners as reported in several case studies we will now analyse.

4. ECR Accomplishments

In researching the benefits realised from adopting ECR in Europe, the authors conducted a programme comprising three main elements:

1. company interviews and case studies
2. research based on existing data sources
3. value chain analysis of specific company cost structures

The company interviews were carried out by members of the ECR Europe Academic Partnership from universities across Europe. These have been written up into case studies, which are included in Appendix. Findings from these case studies have been used both in the calculation of the benefits and in the next chapter on ECR adoption strategies.

The analysis of existing data sources was carried out by researchers from St Gallen University, who were testing for linkages between the scores measured by the ECR Scorecard and business performance. The value chain analysis was carried out by consultants from IBM Business Consulting Services, who carried out in depth analysis of a small number of companies. Together, these sources have been used to examine the level of ECR adoption in Europe and the benefits derived.

4.1 ECR - Overall Benefits

In our definition “overall benefits” comprise those benefits generated through ECR which are realised by retailers and manufacturers as well as benefits realised by shoppers and consumers. They can not be attributed to one party alone.

Based on the combined results of the Global Scorecard data analysis with the results of the value chain analysis, it can be estimated that across the industry ECR adoption has delivered savings of 3.6% on consumer sales value since 1995, i.e. over 18 Billion Euro at 1995 currency rates. In an industry where every cent counts, this is a substantial achievement. Just as important, compared to the initial objectives it can be estimated that 3.3% savings are still left on the table. This is equivalent to 17 Billion Euro at 1995 currency rates. In other words, the industry has realised just about half the savings opportunity identified at the beginning of the ECR movement.

Reflecting the analysis of the Global Scorecard in the previous chapter, it is important to keep in mind that there are tremendous differences in the ECR adoption levels among both companies and countries. The analysis of the Global Scorecard data and the data gathered through the case studies has shown that top-tier ECR adopting companies have benefited much more than companies who lag behind on ECR adoption. ECR adoption has paid off especially for those companies who have made a strategic and practical commitment to embed ECR principles within their businesses. The top-tier ECR adopters' results are impressive and conclusive.

4.1.1. Case Study Analysis

The analysis of the in-depth case studies resulted in findings which apply to all retailers and manufacturers alike:

ECR accomplishment:

Inventory levels have decreased, service levels have increased, on-time delivery has improved and lead-times have been reduced.

The supply chain benefits of ECR have been mentioned continuously by company representatives. Many of them have supported their statements with data from their corporate controlling systems. While the definitions and measures for these factors differ slightly by company, the data demonstrates strong improvements.

This shows that through ECR adoption companies have been able to realise the core supply chain objectives. It also shows that the many examples of supply chain efficiency improvement achieved through ECR, presented frequently at different conferences, are general ECR benefits and not just one time results from single, stand-alone ECR projects. Thus, ECR adoption has been delivering sustainable improvements in the supply chain.

In a case study with the Greek retailer Veropoulos we found that its ECR collaboration with major suppliers in the area of collaborative store ordering helped reduce out-of-stock situations by 60%. While this is a clear benefit for the retailer and the supplier, higher on shelf availability also increases value for shoppers.

"When looking back at our ECR work over the past years, we've extended lots of effort into optimising our supply chain to benefit the consumer. There has been an outstanding improvement in the operation since we started looking at the supply chain as a whole. The research of the ECR Academic Partnership has found out that inventory levels have decreased, service levels have increased, on-time delivery has improved and lead-times have been reduced. Tesco's experiences fully support this finding."
(Joe Dyball, Tesco, UK)

ECR accomplishment:

Through the use of Category Management, ECR has fostered category development.

The broad adoption of Category Management has induced improvements in shelf-layout, pricing, promotions, or assortments, often leading to growth in sales and market share. This is both a benefit for retailers and for manufacturers. This effect will be described in detail in chapter 4.3.

ECR accomplishment:

Through the use of data synchronisation, ECR has improved invoice accuracy.

Although only few examples of advanced data synchronisation are reported, performance increases have been obtained through the adoption of basic standards. Most companies that synchronise data electronically (i.e. with EDI) report improvements on invoice accuracy.

For example, Gillette Italy's invoice accuracy has reached 98% through extended use of EDI and even 100% where the company runs vendor managed inventories (VMI) for its retail customers. This is an improvement of 8 percentage points for EDI and 10 percentage points for VMI. Other companies reported invoice accuracy in the range 90 - 100%.

4.1. 2. Global Scorecard Analysis

In order to generalise the individual findings reported in numerous published case studies, it is also necessary to statistically investigate a large sample of companies. We have run statistical analyses based on the Global Scorecard database, today's largest sample of ECR adoption records⁴. The purpose of this analysis was to determine whether there is any linkage between the ECR capability scores, as measured by the ECR Scorecard and the business performance as measured by the key performance indicators.

As the key performance indicators included in the Global Scorecard focus on the supply side only, this dataset does not allow us to analyse ECR adoption benefits on the demand side.⁵ Nevertheless, statistical evidence about the supply side benefits of ECR is a major contribution to better understand the dynamics of ECR and gives reason to generalise the anecdotal wisdom of demand side benefits.

The results of the analysis are independent from specific geographic areas. The country-specific variations in ECR adoption and business performance levels, as discussed in chapter 3.2, were separated by statistical methods (i.e. covariates).

In the analysis, the sample was split into the two groups "top-tier ECR adopting companies" and "low/non ECR adopting companies" based on the companies' ECR adoption levels and considering country specificities. We then compared the two groups by the companies' business performance levels, adjusted by country-specific effects. Statistically, the method chosen compares the means and the variance of the two groups' business performance levels. The method further takes into account that a portion of the variance in the performance levels is caused randomly, while other portions may have underlying causes. For three of the Global Scorecard's key performance indicators the analysis showed highly significant and clear-cut results.

ECR adoption but also business performance levels are most meaningful if they are considered with the country averages. For example, in small countries like Switzerland distances between distribution centres and stores are relatively short compared to large countries like Finland. Hence, Swiss companies generally report shorter transportation times

⁴ As the intent of the analysis was to identify the effects of ECR adoption on business performance (and this effect proved to be independent from geographic regions), the calculation was made with the full worldwide Global Scorecard dataset.

⁵ This shortcoming has been recognized by GCI and ECR Europe and more demand-related measures are being developed for tracking growth and innovation levels.

than Finish companies, independent of ECR adoption. In the analysis of ECR benefits it is interesting to note whether top-tier ECR adopting companies are better off than their non ECR adopting competitors - in their country.

ECR accomplishment:

Top-tier ECR adopters report higher service levels.

Top-tier ECR adopting companies' service levels are on average 5.7 percentage points higher compared to low/non ECR adopters. The difference between the two groups varies strongly by country as many factors influence service levels. In Germany, the difference between top-tier ECR adopters (mean of 99.1%) and low/non ECR adopters (mean of 92.2%) was the highest in Western Europe. The positive effect of ECR on service level is backed by strong statistical results. Not only are the means of the two groups statistically different, but also 77% of the variance of service levels is explained by our model. The remaining 23% of the differences are caused randomly or by other reasons which are not considered in the analysis.

ECR accomplishment:

Top-tier ECR adopters report lower finished goods cover.

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 the highest in Western Europe. 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. Again, the positive effect of ECR on finished goods cover is backed by strong statistical results. The means of the two groups are statistically different and 50% of the variance of finished goods cover is explained by our model.

Given the capital intensive nature of excess inventory this points to tremendous financial resources that could be effectively re-deployed to drive growth through a variety of initiatives including consumer driven innovation.

ECR accomplishment:

Top-tier ECR adopters report higher on-shelf availability.

Top-tier ECR adopters' on shelf availability is 4.9 percentage points above those of low/non ECR adopters. So, ECR adoption substantially improves on-shelf availability. Also in this case, the positive effect of ECR on on-shelf availability is backed by strong statistical results. The means of the two groups are statistically different and 90% of the variance of on-shelf availability is explained by our model.

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.

Further Findings

The analysis also suggested that top-tier ECR adopting companies improved their performance in further areas by ECR adoption. However, from a statistical standpoint, the analyses did not allow us to attribute these benefits exclusively to ECR. So, there might be additional, as yet unexplored, reasons for these supply chain improvements. Nevertheless, these performance indicators differ between the high and the low ECR adopters, and there are propositions suggesting that ECR could help to explain these differences. The performance indicators considered are suppliers' raw material inventory, lead time and perfect order rate. Future research will have to investigate these propositions by improving the measurement and by increasing the available data.

Time Effects

The increasing adoption of ECR over time is also reflected in the continuous improvement of several business performance indicators. Some top-tier ECR adopting companies were able to reduce their finished goods cover from 24-30 days three years ago to 12-15 days today. Further efficiency has been gained through reductions in delivery time. In the Global Scorecard database some records report a reduction from 120 to 72 hrs in the last three years, many top-tier ECR companies nowadays guarantee delivery within 48 hrs to their customers. Furthermore, on-time delivery has notably improved, reaching in many cases 98-99%.

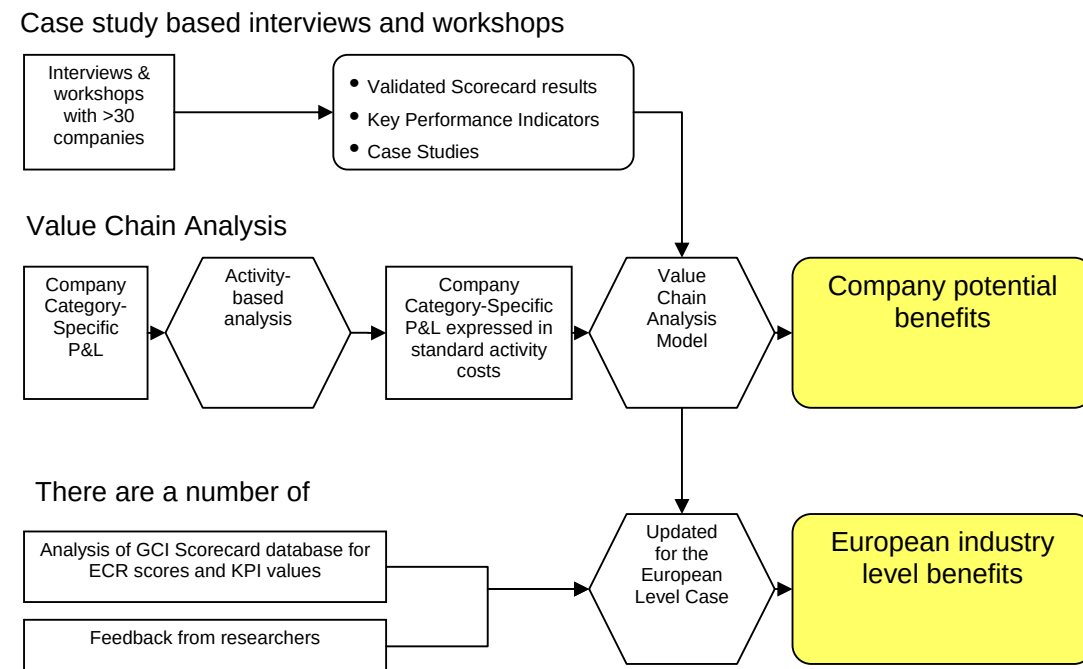
4.1.3 Value Chain Analysis

We have used the value chain analysis technique to examine the impact of ECR on inventory, costs and growth. In doing so, we have used the KPI values reported in the previous chapter to provide the current base level for inventory and out-of-stocks and have taken into account current lead times and service levels.

The Value Chain Analysis technique has been updated from the one used in the 1995 study to take into account the broader scope of ECR, and to produce estimated benefits covering:

- Inventory reduction,
- Operating cost reduction, and
- Growth.

The overall analysis followed the structure outlined in the diagram below:



The Academic Partnership carried out interviews and workshops with over thirty companies across Europe and collected:

- Validated scorecards
- Key Performance Indicators
- Case studies of successful ECR adoption

IBM Business Consulting Services carried out individual company Value Chain Analysis studies with four companies. We would like to thank the following companies for their participation:

- Carrefour hypermarket division in France,
- Gillette in France,
- Coca-Cola Enterprises in the United Kingdom, and
- Procter & Gamble in Germany

The results of the four company Value Chain Analysis studies remain confidential to the companies involved, but the results obtained contributed to an overall understanding of the level of ECR adoption in Europe and the size of the benefits available.

In addition to the information obtained through the company interviews and the individual company Value Chain Analysis studies, we also used information from the following sources:

1. Database of ECR scores held in www.globalcorecard.net
2. Database of Key Performance Indicator values held in www.globalcorecard.net
3. IBM research into company cost structures
4. IBM research into the level of benefits obtainable from Efficient Consumer Response

Operating Cost Structure

In carrying out the Value Chain Analysis we used an activity-based cost breakdown to reflect the costs in both the manufacturer and retailer businesses in a common manner. The activities used were:

Sources of External Category Costs	
<i>Promotion Funds</i>	Advertising - Company or General
	Advertising - Products or Stores
	Prom. Funds - Customer or Shopper
<i>Purchased Goods</i>	Ingredients – Commodity
	Ingredients - Non-commodity
	Packaging Materials
	Finished Products

Sources of Internal Category Costs	
<i>Demand Processes</i>	Complete Strategic Plans
	Manage Assortment
	Manage Promotions
	Manage Product Introductions
<i>Supply Processes</i>	Operate Stores
	Manage Store Inventory
	Manage Orders
	Procure Materials
	Plan Production
	Formulate Products
	Package Products
	Transport to MFG DC
	Warehouse Products
	Prepare Shipment
	Deliver Products

The costs fell into two broad categories: internal and external costs. External costs are those incurred purchasing products, in the case of retailers, or raw materials in the case of manufacturers, plus the costs of advertising and promotions. Money paid by the manufacturer to the retailer in return for providing a service is treated as a Trade Fund.

Internal costs are divided into demand and supply processes and are further divided into a number of activities as shown above.

There will, of course, be other enterprise costs but these have been excluded from the analysis because they are not impacted by adoption of ECR.

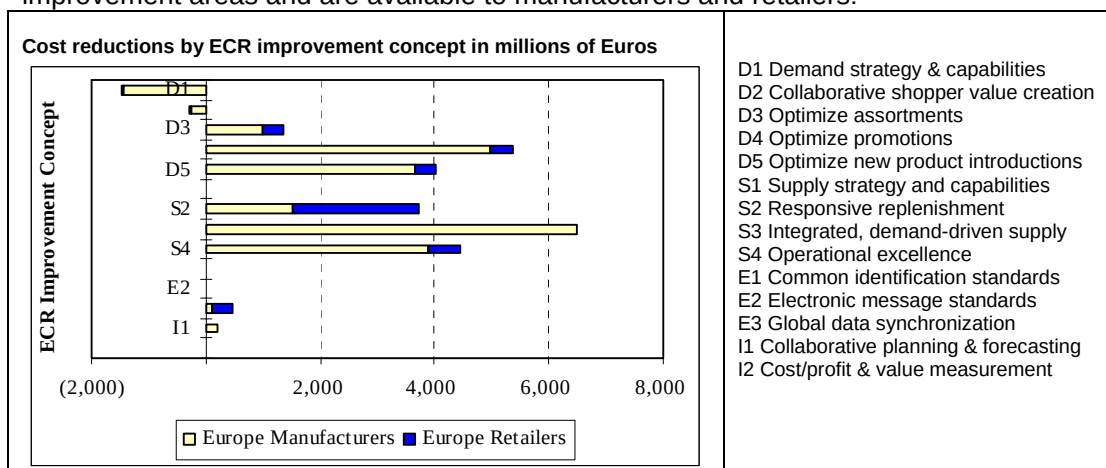
Impact on costs and inventory

Our Value Chain Analysis showed that costs could be further reduced by an average of **3.3%** of consumer prices by fully adopting ECR in Europe. This comprises a reduction of 2.9% in operating costs and 28% reduction in inventory levels.

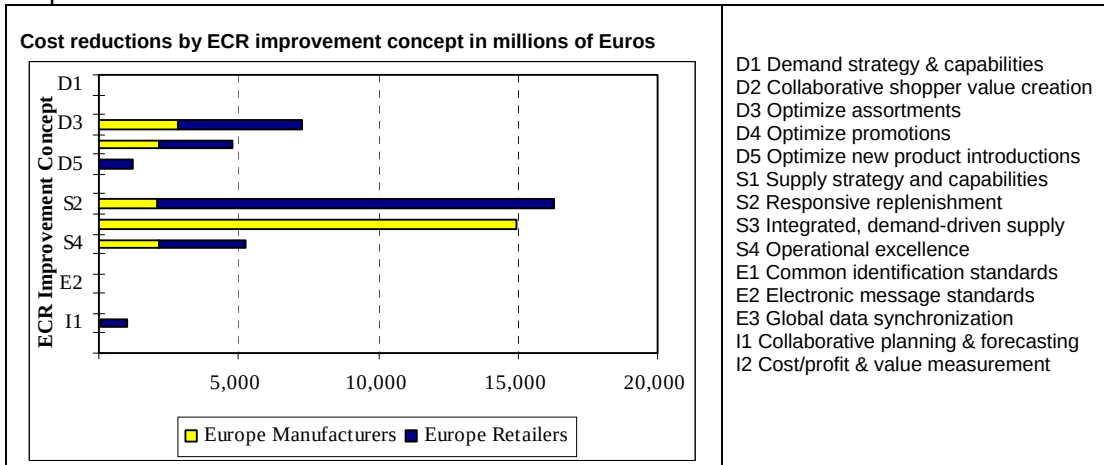
Taking into account the size of the grocery industry across 33 Europe countries and current inventory levels we arrive at the following conclusions for the total size of the opportunity in Europe:

		Dry grocery	Fresh	Total
Starting cost	€ bn			848
Cost reduction	€ bn			25
% Cost reduction	%			3.0%
Starting inventory	€ bn	89	7	96
Inventory reduction	€ bn	25.1	1.4	26.5
% inventory reduction	%	28%	18%	28%
Annual inventory cost	€ bn	2.5	0.1	2.7
	%	0.5%	0.0%	0.3%
Total Cost impact	€ bn	18.2	9.5	27.7
	%	3.3%	3.2%	3.3%

The next chart shows how the operating cost reductions are derived from the different ECR improvement areas and are available to manufacturers and retailers:



The next chart shows how the inventory reductions are derived from the different ECR improvement areas and are available to manufacturers and retailers:



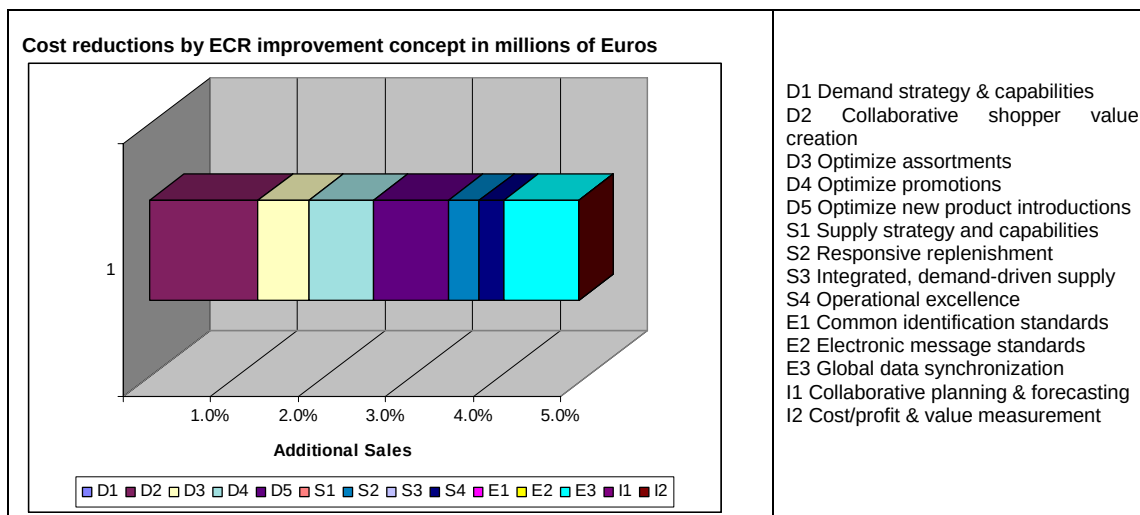
The sources of cost saving and inventory reduction have been explained in the previous chapters, but we make the following observations:

- The major cost savings areas are integrated, demand-driven supply and optimized promotions. Most of these cost savings come from within the manufacturer's business and from the suppliers of raw materials and packaging to those manufacturers. It should not be surprising that the bulk of the cost savings come from the manufacturer and upstream of the manufacturer since this is where most of the supply chain costs lie.
- In order to achieve savings from integrated, demand-driven supply, the manufacturer needs to be able to receive a clean signal of true demand and to be able to respond to demand changes within short cycle times.
- In the area of promotions, it is well known that manufacturers spend large sums of money not only on the planning and execution of promotions but also on trade funds paid to the retailer in return for certain store placement or advertising. It is also well known that a large proportion of promotions fails to achieve the objectives and is not profitable. Optimizing the promotional planning, execution and evaluation will ensure that a greater proportion of promotions are successful and can result in a reduced overall expenditure.
- The majority of inventory savings come from responsive replenishment, for the retailer, and from integrated demand-driven supply, for the manufacturer. Given the current inventory levels, it is not difficult to imagine how these savings could be achieved, especially with the high frequency delivery schedules used in modern centralized retail distribution.

Impact on growth

We have attempted to predict the impact that a full adoption of ECR might have on growth. We estimate that an additional 5% of sales could be achieved by fully adopting ECR across Europe and have estimated the sources of these additional sales to be those shown in the next chart.

The major source of growth is from collaborative shopper value creation and from optimized new product introductions. There have been some highly successful examples of collaborative shopper value creation which have resulted in much larger sales increases than those shown here. Similarly, there have been many examples where improvements in category assortment have yielded sales increases of 20% to 30%. In these cases, the growth has mostly been achieved by taking market share from competitors. In order to achieve the growth predicted in the above chart, there has to be an overall increase in consumption.



We do not believe that it is unreasonable to expect some growth in consumptions to occur when shoppers are presented with well designed products, which fulfill their needs and which are presented to them in an innovative way, helping them find solutions to their needs and making informed choices.

Whilst we have attempted to estimate the impact that the different areas of demand management might have on growth, it has to be acknowledged that these are all inter-related and that it is not possible to achieve a high level of collaborative shopper value creation without having well optimized assortments.

The supply side and the enablers can also impact growth, but it is more due to the elimination of causes of out-of-stocks, which themselves are a destroyer of growth. Both responsive replenishment and operational excellence have a small role to play here. Global data synchronization, on the other hand, can help to eliminate those failures in the ordering and replenishment process due to mismatches in master data in the supply chain or where products have not been set up correctly in company databases.

Whilst manufacturers report that on average 7% of their products are out-of-stock on the retail shelf at any one time, some analysts believe that the true figure may well be higher. Studies have also shown that when shoppers are faced with products which are out of stock, some will purchase another product, some will purchase the product at another store, but some will not purchase at all. We have estimated the net increase in total sales available from reducing out-of-stocks to be about 1.2%.

Conclusions

In 1995, the total cost saving opportunity from ECR in Europe was estimated to be 5.7% of consumer prices. ECR Europe published its Transport Optimization Study, which further added an estimated 1.2% of consumer prices, making a total of 6.9%.

In this study we have estimated the cost reduction opportunity to be 3.3%, suggesting that the industry has realized just over half the benefits over a 10 year period.

In 2005, the total size of the European grocery retail industry is estimated to be 848 billion Euros. This implies a total further benefit of 28 billion Euros to be derived from cost and inventory savings plus the additional 5% additional sales to be generated from a full adoption of ECR.

The question of how to accelerate the achievement of the other half of the benefits is one that we will address in the following sections of this report.

To emphasise what can be achieved in an individual ECR adoption, we choose to highlight here one case of CPFR – Collaborative Planning, Forecasting and Replenishment – between a global retailer and a major Health & Beauty manufacturer, where the “partnership” successfully reduced lead-times from 21 – 11 days., effectively cutting the lead time in half. Sales were increased by 8.5 Million dollars, this represents a 42% improvement, and the in-stock position moved from 87% to near perfection at 98%.

4.2 ECR - Consumer Benefits

Benefits for shoppers and consumers have always been a key target of ECR. In many published case studies, ECR-adopting retailers and manufacturers have communicated that shoppers and consumers benefited from their joint action along the vertical supply chain. In many cases, companies draw conclusions from measured improvements to performance indicators that are known to be important to shoppers and consumers. Yet, only few companies actually ask shoppers and consumers what they think. So far, there is little evidence whether shoppers and consumers actually realised these improvements achieved through ECR, and whether they eventually positively changed their opinion.

For this study, ACNielsen and a multinational consumer goods manufacturer have shared some of their recent shopper and consumer research with us. Surprisingly, the two approaches show high similarities despite having been made independently from one another. Both companies have asked a large number of randomly selected shoppers in many parts of Western Europe to rate retail outlets they were familiar with upon a large set of criteria. The criteria measuring performance that is altered by ECR adoption are very close to one another, allowing direct integration of the two studies.

The study by 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 that are present in her area. Then, the interviewee was asked to rate one of the discussed retailers regarding different criteria on a scale ranging from 1 (very low) to 5 (very high). Out of these criteria, we focused for the purposes of this study 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.

In order to correct interviewees' response bias, we further grouped all records into “committed to”, “positive about” or “reluctant to” the retailer which the interviewee had rated. People who are committed to a retailer tend to overrate its performance, while people who are reluctant to a retailer frequently underestimate it. The interviewees of the "positive about" group appeared

to be the least biased and best informed. Thus, we focused on their data to compare retailer performance levels. Eventually, we ran the same analyses also for the "committed to" and "reluctant to" groups and found no real differences to these results.

ECR accomplishment:

Shoppers widely recognise that top-tier ECR adopting retailers have an improved offering.

For all analysed criteria, the ACNielsen data shows that shoppers evaluate top-tier ECR adopters significantly higher than non ECR adopters (exhibit 5.1). 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 as well as attractive 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. The fact that the other criteria are close among top-tier and average ECR adopters but significantly different to non ECR adopters underlines also from the shopper perspective that ECR has become a basic necessity to remain competitive.

Factor	ECR-leader	ECR-follower	Non-ECR-adopter	Positive vs. Committed	Positive vs. Reluctant
Well presented display of products	4.015	3.985	3.213	No differences	No differences
Attractive & interesting store deals & promotions	3.884	3.691	3.627	No differences	Minor difference
Wide product selection range & Variety	4.049	3.939	3.285	No differences	No differences
Have everything I need in one store	4.012	3.968	3.248	No differences	No differences
Better selection of high quality brands & products	3.951	3.953	3.164	No differences	No differences
Always have what I want in stock	3.878	3.890	3.394	No differences	No differences
A store where it's easy to quickly find what I want	3.878	3.870	3.595	Minor difference	No differences

Exhibit 4.1: Shopper evaluation of retailers grouped by ECR adoption levels (grey fields mark similar levels, i.e. statistically insignificant differences)

In shoppers' eyes, non ECR adopters offer far fewer benefits than ECR adopting retailers. Yet, the differences between top-tier and average ECR adopters are much smaller. For non ECR adopters this might be promising news. As it is not necessary to become an ECR leader in order to benefit from ECR, it is still time to start adopting ECR and realise benefits. Even as an ECR follower, there are tremendous benefits to capture.

ECR accomplishment:

Shoppers place greater trust in top-tier ECR adopting retailers.

The shopper research provided by a multinational manufacturer shows that retailers win higher shopper trust for their stores by getting engaged in ECR. There is wide agreement in practice and academia that trust is a key factor in shopper loyalty to stores. And shopper loyalty is valuable to retailers for several reasons:

- Less costs for attracting customers into the store
- Higher predictability of purchase behaviour
- Less price sensitivity

This study measured retailer performance with criteria that are relatively similar to the criteria used in the ACNielsen study. Yet, in addition, this study also asked shoppers about their loyalty to the store they had evaluated. By combining the retailer performance indicators into

a retailer performance index, we formed an indicator that allowed us to link this survey with the ACNielsen survey. The ACNielsen survey showed that shoppers perceive top-tier ECR adopting retailers to have achieved higher performance levels. We now conclude that most retailers which shoppers perceive to have high performance are ECR adopters.

The manufacturer's study revealed a very strong and statistically significant correlation between shoppers' perception of retailer performance and shopper loyalty to stores of 78.7%. Exhibit 4.2 shows the strong divide between low and high performing retailers in terms of shopper loyalty. The data was generated similarly to the ACNielsen study by interviewing shopper across Western Europe.



Exhibit 4.2: The retailer performance - shopper trust correlation

The direct correlation between ECR adoption and shopper loyalty becomes apparent when we integrate the two studies. As argued above we assume for the integration that most retailers perceived to have high performance are ECR adopters.

The combined result of these two studies shows that retailers and manufacturers have a big opportunity in jointly improving the shopping experience. This is a constructive option compared to the commonly articulated stereotype of worry about the unfavourable business environment, the discounters' aggressive strategies or hesitant consumers. Shoppers appreciate stores that better suit their needs, and they respond with increased loyalty. By collaborating along the vertical supply chain retailers and manufacturers are capable of better responding to shopper (and consumer) needs in store - a clear benefit for shoppers and a well received invitation to shop not only for favourable prices but also for service.

In addition to these two large scale studies, numerous of the analysed case studies showed benefits for shoppers and consumers created by ECR adoption. Some companies approach shopper value creation very pragmatically, while others have made it part of their collaboration strategy.

Globus is shoppers' preferred large-scale retailer in Germany, winning the "consumer monitor", a German customer satisfaction study, for 11 years in a row. One key success factor is the adoption of ECR in a decentralized management organisation that grants far reaching competences to local store managers on category management. The closeness to its customers characterises decisions on mainly locally-procured assortments, competitive pricing and weekly promotions with guaranteed product availability.

Acqua e Sapone is a fast growing retailer in Italy that is generally admired by shoppers. Together with a major supplier, the retailer is committed to the creation of sustainable shopper value. In the collaboration with Procter & Gamble Italy, the two companies run joint initiatives to adjust the retailer's assortment and store atmosphere to suit Acqua e Sapone's shoppers, and enthuse them with the latest product innovations. Keys to the partnership are the distinct capabilities of the two companies. Acqua e Sapone has unique understanding of their shoppers and is faster than all its competitors in putting new ideas into reality. Procter & Gamble itself has comprehensive consumer understanding and is able to progress at similar speed.

Young mothers in Greece have substantially increased their loyalty to Carrefour. Together with Procter & Gamble the retailer has established in each store an area dedicated to young children. In this area, mothers find product and service offerings that are customised to their needs and that allow easy and efficient purchase.

4.3 ECR - Supplier Benefits

Many suppliers (i.e. manufacturers) pursue ECR adoption hoping that this will help them improve business performance, e.g. profitability, turnover, market share or efficiency. ECR adopting suppliers have frequently presented at conferences the benefits they have derived from ECR projects. Often, these benefits were specific for the presented project.

ECR accomplishment:

ECR has helped suppliers improve supply chain operations.

Generally, as we have discussed earlier, ECR adoption has substantially improved suppliers' supply chain efficiency. Overall, most companies report that inventory levels have decreased, service levels have increased, on-time delivery has improved and lead-times have been reduced. As grocery sales tend to grow at a moderate speed, cost saving and efficiency improvement are important strategies to increase profitability.

ECR accomplishment:

ECR has helped suppliers improve their image and drive sales.

ECR adoption also helps to improve business performance on the demand side. On average, ECR adopting suppliers have performed above industry average. Performance advantages vary substantially in detail and in size among companies. The supplier market is highly fragmented and, for some categories, extraordinarily local. Especially for food categories, small and medium size companies account for the major portion of the market. Fresh produce and prepared foods are hardly ever sold under brand names, while packaged goods are labelled either with manufacturer or retailer brands. Yet, these factors determine strongly what suppliers can realistically expect by adopting ECR.

The attributes of a category shape the limits in which specific products or brands can perform. Research by ACNielsen suggests differentiating categories by two characteristics.

First is the degree of commoditisation, which indicates how differentiable products in the same category are. A very high degree of commoditisation suggests that all products in a category are perceived as having identical features, i.e. the consumer is indifferent as to which one to purchase and therefore the brand name confers little value added. A low degree of commoditisation on the other hand indicates that products, though in the same category and generally addressing similar purposes, are valued very differently by consumers. In this case the brand plays a major differentiating role.

The second characteristic is the level of category branding. In cases where either manufacturers' brands represent a large proportion in the category or there are no strong

manufacturer brands, the category becomes fragmented with a relatively high number of brands each holding a relatively small market share.

These dimensions define four quadrants each with different implications for the manufacturers' product. Each of these quadrants presents a unique environment to the supplier and hence each holds its risks and difficulties when establishing or trying to generate organic growth for a brand.

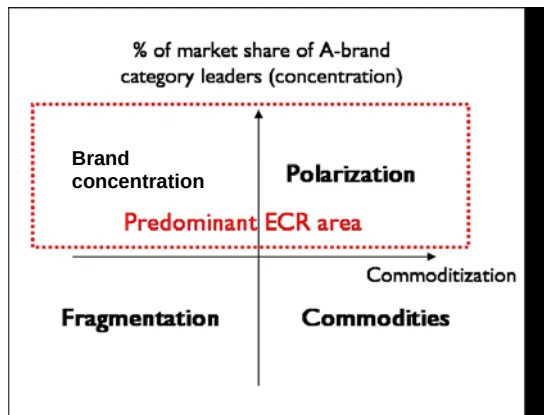


Exhibit 4.3: Category segmentation (Source: ACNielsen)

I. A low degree of commoditisation is combined with a high degree of brand concentration. Shoppers trust the differences between the different products and brands, and have little confidence in private label alternatives. Generally, the product features and the brand play a larger role than price in shopper decisions.

II. Polarised categories show a higher degree of commoditisation. Commonly, shoppers' brand loyalty is limited, as the products in the category are largely regarded by shoppers as similar in performance. This puts these categories under intense price pressure.

III. When no major brands have set themselves apart from competitors, but each of these brands possess specific features and are not arbitrarily interchangeable from the point of view of the consumer, we can speak of fragmentation of that category.

IV. A category that consists of products which are regarded by shoppers as being similar and substitutable can be considered commoditised. Shoppers see no value added by a brand. As the only differentiating factor is a cheap sales price, commoditised categories experience very intense price pressure. Generally, supplier branded products can hardly sustain in highly commoditised categories.

In the course of our study, a strong focus emerged on branded products. Most cases for which suppliers provided us with financial data concern major supplier brands that account for a substantial share of category sales. Generally we have found that ECR adopters have the potential to perform well in each of these distinct environments.

In non-commoditised categories we found that ECR adopters are a major driver for category growth. The category depicted in exhibit 4.4 as an example is determined by a strong market share of three supplier brands which are distinctly positioned. In this particular category, the leading brand (76% market share) grew with 7% p.a. over a period of 5 years, while the whole category grew with 6% p.a. The manufacturer therefore contributed to category growth by over 80%.

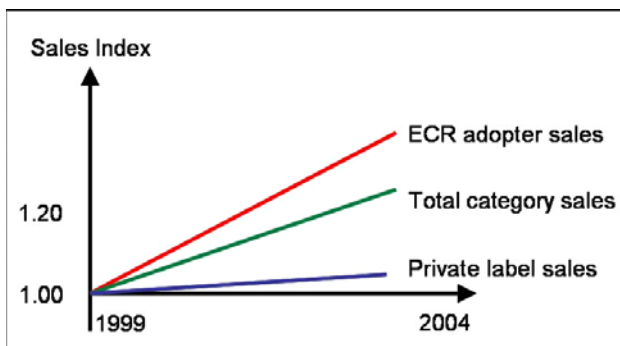


Exhibit 4.4: Example of sales development for a strongly branded category

The category shown in exhibit 4.5 is determined by an average market share of multiple supplier brands and an relatively high level of commoditisation. Supplier brands are under increasing pressure as low priced private labels as a whole grew 10% p.a. over a 5-year period. With a growth rate of around 1% p.a. the ECR adopting suppliers were able to slightly increase sales. In terms of volume sales, the category grew but the continuous deflation of sales prices caused a decline in total category sales. It was particularly due to strong supplier brands that total category sales did not decline faster.

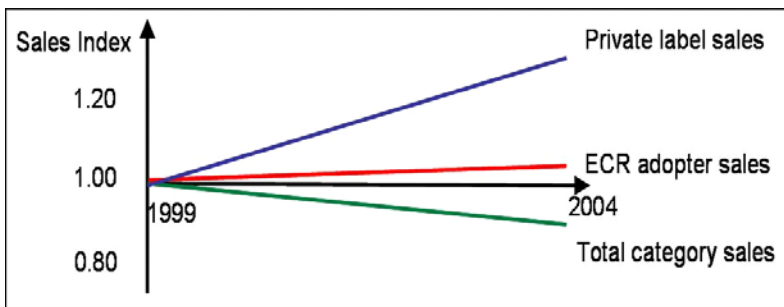


Exhibit 4.5: Example of sales development for a polarised category

In commoditised categories suppliers can benefit from the collaboration with retailers e.g. through category management to create extraordinary offers that eventually increase the value of those categories.

ECR accomplishment:

Top-tier ECR adopting suppliers have become retailers' preferred collaboration partners.

ECR adoption brings further important benefits for supplier on top of better sales. The adoption of reliable and efficient replenishment systems that are deeply connected with retailers' systems make suppliers less exchangeable. Furthermore, retailers increasingly appreciate suppliers' advice on their category strategy. Research by US consulting firm Advantage Group revealed that retailers are substantially happier with their business relations with ECR adopting suppliers than with non ECR adopters.

"Suppliers with high ECR experience are retailers' preferred collaboration partners, mutually benefiting from one another's knowledge. Usually, as a retailer we have to handle dozens of categories, hundreds of suppliers and thousands of products and as a result we have a high complexity of dealing with all of these products. In order to be able to handle these products better we are focusing on a few key suppliers. Those suppliers have high capabilities because they have specialised knowledge in their product categories and have sufficient resources in order to be able to support various projects that we are going to do together. The result is to mutually put together our forces and have the best result for the customer."

(Nick Veropoulos, Veropoulos Supermarkets, Greece)

ECR accomplishment:

Top-tier ECR adopting suppliers have progressed and extended their capabilities.

Many of the ECR early adopter-suppliers case studies illustrated that a deepened relationship with retailers has substantially improved their capabilities. Their better understanding of retailers' business processes enables them to adjust their own processes and gain efficiencies accordingly, on the demand as well as on the supply side. They understand retailers' strategies and can include them in their own business agendas. Also, they have been building up capabilities to combine their consumer knowledge with retailers' shopper knowledge.

For suppliers which have only recently started to employ these new capabilities, it will take more time for full benefits to materialise. In any case, higher capabilities and better understanding of retailers increases the potential to improve the business relationship with retailers. As we have witnessed in our case studies not developing collaborative capabilities in the competitive German retail environment can lead to eroding market shares.

Kraft Foods' mission statement includes the objective of becoming a market leader and competent partner for ECR solutions. This objective is realized in 'Kraft Plus', the company's pragmatic approach to ECR concept adoption, which has gained a lot of attention in the retailing industry. Kraft Foods is now being recognised as one of the leaders in collaborative value chain management. The method is not only intended to provide retailers with the right pragmatic support at the right time (thus enabling a mutually benefiting partnership), it also enables dialogues with the company's partners aside from price negotiations.

Procter & Gamble developed first competences in ECR in a project with Wal-Mart in the US in the early 1990s. The reported benefits attracted the attention of Metro Group in Germany and were the beginning of a close and successful collaboration. Procter & Gamble initially took the lead in category management projects such as in the shop-in-shop solution 'Baby, Kids & Co' for Metro Group's hypermarket Real. In addition to delivering value in the category itself, this shop-in-shop solution embraces a whole range relevant for the young family with kids, i.e., food and non-food categories such as baby food, baby care, utensils, books / magazines and clothing. These categories are put together physically in stores. Moreover, the management of respective categories and suppliers lies in the responsibility of Procter & Gamble. The collaboration with Metro Group is regarded a great opportunity to test new concepts and technologies in real life settings and thus learn more about shoppers. Also, collaboration is the only way for the supplier to effectively manage the appearance of its products at the point of sale.

In Italy, ECR adopting suppliers generally report growth in volume and value. Several suppliers mentioned major benefits from collaborating with retailers in their new product activities. These companies were able to improve new products in some cases by including retailers' expertise during prototyping and launch. Many suppliers also benefited strongly from improvements in promotion effectiveness. Retailers' knowledge about shopper behaviour allowed them to design promotions much better towards shopper needs. E.g. Procter & Gamble cited their work with Acqua e Sapone as instrumental in driving higher efficiency and greater returns on their investment with them.

Henkel Hellas, with its Schwarzkopf & Rilken division, experienced strong improvements on both demand and supply side through ECR adoption. The adoption of collaborative store ordering with the retailer Veropoulos allowed the company to significantly increase sales through reduced out-of-stocks and improved shelf appearance. Simultaneously, the two companies have further strengthened their relationship.

4.4 ECR - Retailer Benefits

Alongside suppliers' efforts, retailers also pursue ECR adoption with similar hopes of improving business performance in the areas of profitability, turnover, market share and

efficiency. Retailers leading in ECR adoption have presented their benefits from ECR projects at conferences many times. Some presentations made statements about benefits for the entire company, many others presented benefits that were specific for the presented project.

ECR accomplishment:

ECR has helped retailers to improve their supply chain operations.

Generally, as we have discussed earlier, ECR adoption has substantially improved retailers' supply chain efficiency. Overall, most retailers report that inventory levels have decreased, service levels have increased, on-time delivery has improved and lead-times have been reduced. As grocery sales tend to grow at a moderate speed, cost saving and efficiency improvement are important strategies to increase profitability.

ECR accomplishment:

ECR has helped retailers to improve sales and image.

ECR adoption also helps to improve business performance on the demand side. On average, ECR adopting retailers have performed above industry average. As in the case for suppliers, performance advantages vary substantially in detail and size among companies. A general analysis of the retail market shows this trend.

Among the ECR adopting retailers, most have extended their business activities with new formats like hypermarkets, cash & carry markets, or convenience stores - often referred to as modern grocery formats.

These modern grocery retailers have performed relatively better than traditional stores, and in most European countries these modern formats have increased their share of retail sales (exhibit 4.6). While it is difficult to attribute this success to specific strategies, ECR has played an important role in enabling retailers to adjust their operations to the new market conditions. There is, therefore, reason to assume that ECR adoption contributes to retailers' success and represents a rewarding investment for retailers.

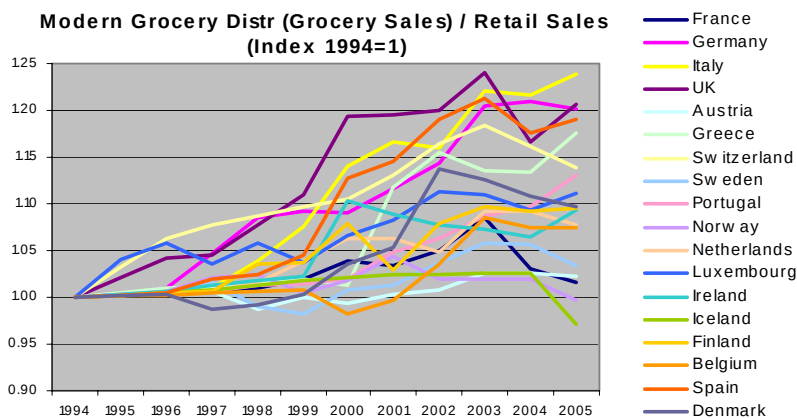


Exhibit 4.6: Development of modern grocery sales

Metro Group and Tesco are two showcase retailers that achieved solid performance in their home countries Germany and UK, respectively. Data from M+M Planet Retail suggests that in 2003 Metro Group outperformed the German retail sector by roughly ten percentage points. In the same year Tesco managed to generate growth around 25 percentage points above the general trend in the UK.

The two companies, apart from both being successful ECR adopters, differ substantially in their business strategies in recent years. It means that ECR can only be one factor to explain the successful developments of Metro Group and Tesco. Each of them operates under quite

distinct market conditions. In the price-pressured German market, Metro Group was able to both sustain the ever-decreasing price level and become more attractive to shoppers. Tesco continued to further improve its appeal to shoppers and realise increasing profits.

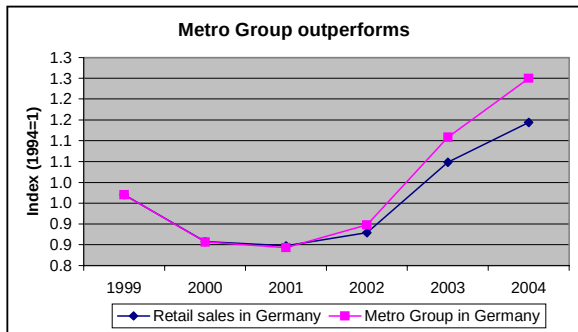
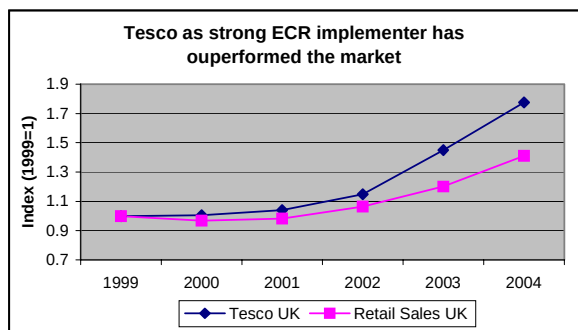


Exhibit 4.7: Growth rates of Tesco and Metro Group (Source: M+M Planet Retail)

A closer look at the two companies shows that ECR makes a valuable contribution to their success. Both have reported for many years their continuous work on developing unique product and service offerings in collaboration with their suppliers. Increased market share demonstrates that the two companies have done things right in shoppers' eyes. Simultaneously, both have been able to invest money saved through efficiency improvements on the supply side into these new offerings.



Retailers that find themselves in an environment with high competitive pressure on prices, may feel to have received little benefit from ECR adoption. However, the benefits of ECR are often difficult to evaluate and emerge gradually over time. A retailer who has made the decision to increase collaboration with its suppliers has no real comparison, making it almost impossible to determine whether any new difficulties experienced come from market developments, competitor moves or ECR adoption. In any case, whenever price is the major factor in competition, risks are high that the benefits realised through ECR adoption are competed away, i.e. cost savings realised through efficiency gains are likely to be immediately passed on to the consumer through lowered sales prices. Yet, retailers who have not engaged in activities to improve efficiency and offerings have found themselves quickly in trouble.

ECR accomplishment:

The improvements made through ECR have led to tougher competition in retailing.

The improvements made through ECR become apparent in many different ways. Generally, products tend to be fresher in store, choice has increased, assortments have become more oriented towards shopper needs, promotions are more beneficial and out-of-stocks have decreased. These improvements have considerably altered the level of competition, and ECR has certainly been driving the continuous increase in shopper value over the past years.

"Retailers that have high experience in ECR tend to create higher shopper value. The retail industry has undergone phenomenal change in the last decade. We've seen consolidation across sectors. We've seen the emergence of retail formats at an incredible pace. We've seen differentiated store layouts. And, we've seen a product offering that is much larger and more complex than in the past. All of these changes have occurred because retailers and suppliers have worked hard to meet the changing needs of today's consumers. Our consumers want greater convenience, they want better services and they want more choice, and most importantly, they want real value. It's that consumer value that's at the heart of the ECR model. Those retailers and supplier that can develop and maintain real working partnerships and embrace the principles of ECR, they are the ones that are most successful now and will continue to be the most successful in the long term."

(Alun Ferguson, Coca-Cola Enterprises GB)

There are two main trends among German retailers that come with the creation of higher shopper value. This is a profound understanding and appropriate targeting of customers on the one hand and the reacceptance of logistics responsibility by the retailers on the other.

Today, the selection of German retailers interviewed has a comprehensive understanding of shopper decisions, which is a recent development. METRO Group's head of ECR claims "10 years ago, retailers did not know much about consumers. They were totally dependent on the manufacturers for market and shopper research." However, the main purpose of retailer investments in ECR principles must be to gain understanding of the customer base. Consequently, METRO Group uses all available external and internal data sources to generate more information regarding the buying behaviour of their customers. In particular, the launch of the customer loyalty card 'Payback' provided new and invaluable insights and augmented the company's knowledge base. Along with the increase and improvement of data on, and knowledge about, the customer, new concepts were developed explicitly for targeted sets of shoppers. As such, the strategy of focusing on selected customer segments is aligned with the target customer lifetime and identifies differentiated solutions for each phase on three different levels as shown in exhibit 4.8. The combination of the following is designed to attract families and kids and make them loyal throughout their life time to Real (METRO Groups' hypermarket chain): i) efficient prices and marketing on trigger items, ii) in-store solution centre and iii) events.

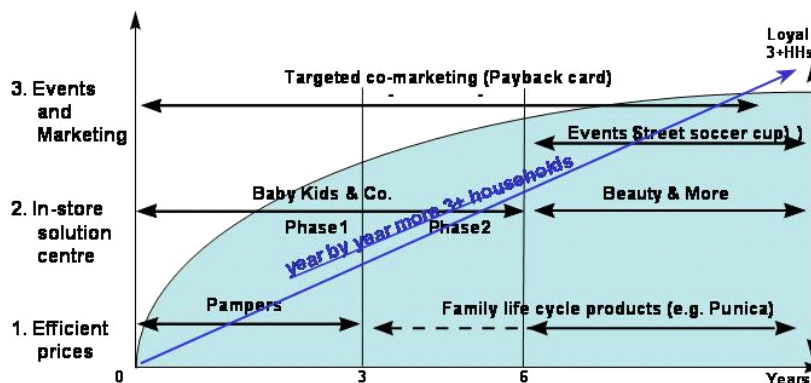


Exhibit 4.8: Life time of target consumer segments and differentiated solutions provided.

The creation of high shopper value requires high product availability at low cost. These considerations advanced the general trend in German retailing to reassume logistics responsibility. With the construction of a central warehouse for fresh food, frozen food and non-food products, German retailer Globus is now able to benefit from four different product flow alternatives: central warehouse delivery, cross-docking, transit and direct delivery. The decision on which method to use is fully supported by activity based costing from the supplier ramp to the store shelves. Consequently, inventory could be reduced by 25 percent, which reduced storage space at the stores by 33 percent that could then be in turn converted into

additional sales areas. This is another reason why Globus is shoppers' preferred large-scale retailer in Germany.

In Italy, through the adoption of ECR, most Italian retailers have improved supply chain efficiency, and they have experienced improvements in category growth and cross-selling. Many retailers saw higher financial performances after adopting ECR, some even in the short term. In the example of the collaboration between Acqua e Sapone and Procter & Gamble, the two companies stated that Procter & Gamble provides the retailer with above average support in the areas of finance and human resources. Acqua e Sapone's agility enables them to quickly make use of emerging opportunities (in products or services) which most other retailers are unable to capture due to less agile decision making and adoption processes. Procter & Gamble can test new ideas and learn through this collaboration - to the benefit of both companies.

Italy's retail chain Interdis benefited strongly from its shopper value creation strategy. Its loyalty card programme gives Interdis a unique source of shopper knowledge and also an exclusive platform to communicate with its customers. In its collaboration with its major suppliers the company frequently runs customised promotions that are specifically targeted at shoppers who have in the past reacted favourably to such customised promotions by increasing their loyalty and purchase volume with Interdis. These customers are identified through loyalty card and scanner data.

In Greece, the ECR philosophy has helped ECR adopting retailers to focus on their shoppers rather than on the supplier profit margins and listing fees. As an example, the Greek retailer Metro-MyMarket decided to change their supermarket's name, character and image in order to stress their focus on the shoppers and to build strong relationships with their customers. This strategic change would have been unimaginable few years ago.

Most of these ECR adopting retailers have transformed the way they structure and operate their stores through the wide application of the category management and shelf management processes. They have also achieved greater efficiencies in the supply chain, both through centralisation and through continuous replenishment programmes with suppliers.

4.5 ECR - Relationship Benefits

The ultimate intent of ECR collaborations is to jointly create consumer benefits that no company could create on its own. In the literature such relationship benefits are referred to as "relational benefits". They are the results of the use of the partners' complementary assets. In fact, retailers and suppliers pursue complementary activities which in turn allow them to create unique offerings for shoppers and consumers. Shoppers appreciate better offerings, better suited product presentations on shelves, fresher products, and higher product availability.

In all case studies and in most presentations of ECR projects, companies showed that they were able to create higher shopper and consumer benefits that would have been impossible to realise independently by one company alone. In most supply side projects, the partnering companies report having achieved improvements in supply chain efficiency through higher transparency about sales data, forecasted demand and actual stock levels. The largest relationship benefits, however, are reported for the demand side.

ECR accomplishment:

Increased and linked shopper and consumer knowledge enable both parties to create higher consumer value.

Suppliers and retailers have traditionally harvested knowledge about their customers: their habits, likes and dislikes. Suppliers have access to a lot of detail about the consumers of their products based on vast market research, consumer focus groups, or direct interaction. Retailers know their shoppers in detail - they frequently refer to hands-on experiences by store

personnel, market research as well as POS and loyalty card data analysis. However, both are in a position to generate only limited customer understanding. It is the link between shopper and consumer knowledge where large potentials for better customer understanding exist. Whenever companies were able to connect consumer with shopper knowledge, when they were able to understand consumer demand and match it with customised offerings to shoppers in store, sales increases were achieved.

"Increased and linked shopper and consumer knowledge enable both parties to create higher consumer value. ECR was formed because of the fundamental insight that retailers and suppliers both work for the same customer. Clearly, we both know a lot about our customers: retailers about shoppers, suppliers about consumers. Today, when we plan and execute promotions or product innovations, we maximise consumer value at any step: from the decision making to the purchase, the consumption, and eventually the re-purchase. The results can be clearly seen when we look at the growth of our categories."
(Vangelis Panagiotou, Colgate-Palmolive, Greece)

ECR accomplishment:

Jointly, retailers and suppliers have become more responsive and flexible.

There is, in fact, more to collaborative action than creating better offerings. Executing these creations faster and with higher flexibility is a second benefit and an important enabler for sustainable competitive advantage. This agility comes from better aligned business processes of the partnering companies. As decisions are made jointly, with up front information for the many people involved in these business processes, execution encounters less organisational resistance and achieves better results. In ECR collaborations, compared to traditional retailer-supplier relations, assortment changes, promotions or new product introductions are often planned more efficiently and are executed quicker leading to higher reaction to consumer/shopper demand or to competitor activities.

ECR accomplishment:

Retailers and suppliers have increased the level of trust and fairness in their business relationship.

As explained earlier, through ECR relationships, many companies report to have gained a better understanding of the partner's – its environment, its business constraints, its strategies, its processes. The regular exchange of non competing information along the demand driven supply chain has helped this understanding. Sharing knowledge and understanding help generating a higher level of trust and bring mutual respect. Generally manufacturers and retailers consider that by engaging in ECR relationships they have improved their return on investment.

ECR accomplishment:

Retailers and suppliers show higher commitment to joint problem solving.

Companies report that in ECR relationships their partners generally respond faster to any case of inquiry they may have. Such inquiries comprise problems as well as new ideas. A first reason for this development is higher transparency of the partner's organisation, allowing the inquiring company to address emerging issues to the correct person. In this context the alignment of the companies' interface structures played a major role (see chapter 5.4). A second reason is the increased feeling of joint responsibility, making a topic important enough to be worked on by everyone. And third, people have a better understanding of the causes for the inquiry, giving them reasons why these issues are important to be addressed.

In Italy, companies involved in ECR collaborations report to have obtained an improvement in the quality of their business relationships. By collaborating, partners have achieved higher mutual comprehension and confidence levels (as it was very apparent in the Coca-Cola & Interdis case, see Appendix C) as well as strategic alignment in consumer orientation (a point

especially underlined by Gillette, see Appendix C). In further cases, suppliers acknowledged that thanks to collaboration they got a higher knowledge of shoppers and of retailer's marketing and logistic processes, improving their relationships. Similarly, Interdis, representing many other retailers, mentioned very good outcomes in terms of relationship quality, mutual understanding as well as consumer and shopper knowledge. Procter & Gamble and Acqua e Sapone explained that the quality of their business relationship goes beyond the boundaries of the meeting rooms: "The nature and the quality of our relationship can best be illustrated with the convivial events that often follow our major reunions. These certainly are excellent soil to further root the trust, healthy debate and esteem that characterize our relationship".

In pre-ECR time it would have been unimaginable for retailers and suppliers in Greece to share information and knowledge with each other. Only in the last decade have retailers and suppliers gone through a significant mentality change. Competing retailers and suppliers now sit at the same table in the context of ECR Hellas projects and exchange information and knowledge about common problems. Many of the larger retailers, especially the local companies, see an opportunity to offer better services to their shoppers by having the support of trusted suppliers. In certain relationships, there is a very high degree of trust between the collaborating partners, although this is usually limited to few companies. Smaller retailers, however, have been reluctant to adopt the ECR practices and appear to be more conservative. However, in the ECR Hellas Conference in March 2005, there was the highest participation ever of smaller retailers.

For German suppliers, supply chain collaboration is becoming even more critical with the gradual consolidation in German retailing and the reduction of volumes shipped directly to the stores. Thus, the physical supply chain is frequently being cut off at the retailer's warehouse. The missing physical link needs to be replaced by collaboration with the retailers.

For Dr. Oetker, we observed the importance of collaborative data exchange for demand forecasting. With direct contact to the sales side being cut off, getting access to POS data becomes critical for achieving supply chain efficiencies and to mitigate against the well-known bullwhip effect, i.e., the amplification of order size and volatility of orders in a decentralized and multi-echelon supply chain.

In the case of Procter & Gamble Germany, they state that the collaboration is the only way to influence the POS appearance of their products and thereby create a "win-win-win" situation. The shopper benefits from a higher attractiveness of Real (METRO Groups' hypermarket chain) and an improved price-performance ratio. Real benefits from means to differentiate itself from competition and an improved shopper loyalty. Lastly, Procter & Gamble improves the POS appearance of their brands, to win the first moment of truth, and has means to increase brand loyalty. This shows in the following example.

The linked shopper and consumer knowledge of METRO Group and Procter & Gamble shows its strength in different programs under the umbrella of Consumer Relationship Management (CRM) which started in 2002. For example, a joint market analysis of Procter & Gamble and METRO Group revealed that the diapers category at Real was well developed, but could still be improved. Promotions significantly increased store frequency at Real; especially walk-in customers are attracted to shop at Real. Walk-in customers are characterized by the attitude: "It does not matter where I buy diapers. The deciding factor is the price." Thus, there was little customer retention. With this market knowledge, the potential to grow the diapers category was to increase the number of repurchases beyond promotions by communicating that purchasing diapers at Real is always rewarding. This objective was achieved with a Pampers loyalty campaign, set up in mid 2003, in which shoppers were remunerated for buying four packages of diapers with a free gift, such as LEGO toys. The loyalty campaign was further pursued throughout 2004 with free gifts such as Fisher Price toys, wet wipes and picture books. Exhibit 4.9 shows that both the market share of Pampers in the diapers category as

well as the category share of diapers at Real significantly increased. This happened especially as walk-in customers became loyal shoppers.

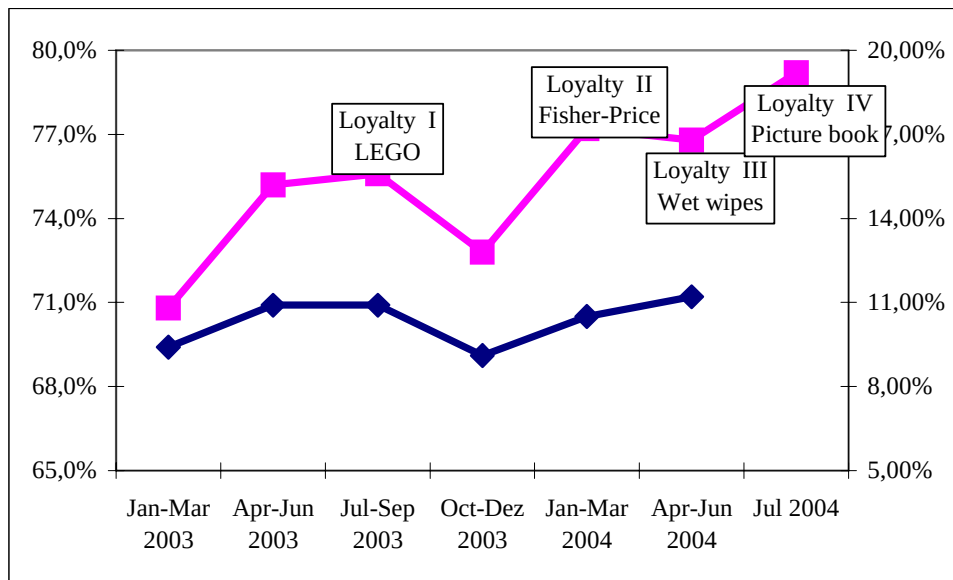


Exhibit 4.9: The effect of the loyalty program of Pampers on market share of Pampers at Real (left axis) and category market share of Real (right axis).

5. ECR Adoption

We will first review the adoption strategies, the adoption barriers, the impacts of market conditions and business standards on ECR adoption as well as the possible limitation of ECR adoption. Finally, we look at the issue of active change management.

5.1 ECR - Adoption Strategies

For most companies, their first ECR experience is a small project to test and learn before starting a broader ECR adoption initiative. Following this strategy, many companies change their approach to ECR over time to better suit their circumstances, and they adopt ECR practices one step at a time. They might start, for example, with a small national project that is facilitated by a national ECR initiative, an academic institution, or consultants. Then, it is often decided to apply the new capabilities across many countries.

Adoption experience:

Pilot projects are the predominant way to start ECR adoption.

Pilot projects are an often used initially as a way to gain experiences with ECR processes and adapt the standardized ECR concepts to the specific needs of a company. There is no “one-size-fits-all” approach towards ECR adoption. Setting up supply chains for different countries or different retailers, for example, demands a tailored approach.

Kraft Foods Germany discovered, through a pilot with the 8-step Category Management process in 1996, that the process was too cumbersome and thus not suitable for them. The lengthy manual analyses of non-standardized data sets, the struggle to align with strategic direction and, in particular, the difficulty in making the category plans measurable finally contributed to the failure of the pilot project. Consequently, the 8-step process was approached from a more pragmatic angle; every part was considered for automation potential, a process which resulted in a new formation of modules. The complexities associated with practicing the 8-step Category Management model were finally overcome by simplifying the 8 steps into 3 key steps, known as the Kraft Foods 3-Step-Category builder.

Another supplier reported addressing its problems in physical distribution through several collaborative pilot projects. The company had been unaware of frequent delivery problems until retailers complained about missed deliveries. The information flow had stopped at the supplier's exit door and re-started in a different system at the retailer's distribution centre. The implementation of a new collaborative information system aimed at closing this gap was run through pilot projects, in which the supplier assessed the magnitude and the kind of problems and gained experience in how to best collect the required information. Furthermore, solutions had to be implemented to cope with the specificities of the highly fragmented transportation market in that country. Only after the supplier had understood the problems sufficiently well and had evidence that the developed solutions were beneficial in pilot application could the company start a corporate roll-out.

Adoption experience:

The selection of the project partner influences the success of the ECR pilot projects.

In most case studies, partner selection turned out to be a key factor for successful ECR adoption. Depending on the nature of the project, one can find major differences among possible collaboration partners. For projects including confidential information, it is important to select partners with whom the company has already developed a high level of trust. For projects where new ways of doing things are at the core, the capabilities and the interest of the partner play a key role. For projects which are risky, the willingness and ability of the project partner to share the risks and to invest are crucial. Factors such as similarity in culture, organisational structure and customer patterns can also be of high importance.

Adoption experience:

ECR adoption needs to follow a strategic plan.

ECR consists of multiple concepts and connects different organisational areas. Successful ECR adopters addressed this complexity by developing and following a comprehensive strategic plan.

Some of the ECR concepts are distinct, while others are dependent on one another, requiring a company to adopt specific ECR concepts to a certain level before the next ECR concept can be addressed. Yet, there is no generic sequence. Sequences depend strongly on the specific relationship: the joint objectives, the joint processes and the existing capabilities.

Another potential barrier to success exists because most ECR concepts affect many processes of the current business practice. Pursuing multiple different initiatives at the same time runs the risk of the process becoming paralysed as often insufficient resources impede the parallel application of the "new" and "old" processes. Therefore a planned step-by-step change has proved to be a successful approach.

A typical approach in this case is to first run a status quo analysis of the partnership to define the ECR concepts to be adopted. Based on this a strategic plan specifies the sequence of the adoption and the approach to the adoption of each ECR concept.

A planned ECR adoption allows the adopters to focus first on quick wins and on gaining acceptance within the organisation, and later to gradually evolve towards an organisation that integrates and applies ECR concepts company-wide without getting stuck in running pilot projects. When working with a strategic plan the responsible people are encouraged to think on a long-term basis and to consider overall benefits, too.

In France, Coca-Cola Entreprise and Système U started a long-term collaborative partnership in 2002 with the objective of strengthening the soft-drinks category. After analysing the development of the whole category they decided to focus on 4 key drivers to foster category growth: on-shelf-availability, promotional efficiency improvement, shelf layout differentiation

and extension of vendor managed inventory (VMI). For on-shelf-availability, they first analysed loyalty and turnover for the whole category at Système U. The potential benefits of reducing out-of-stocks by 30% and increasing growth by 4% were targeted and later realised by following a multistage plan (exhibit 5.1).

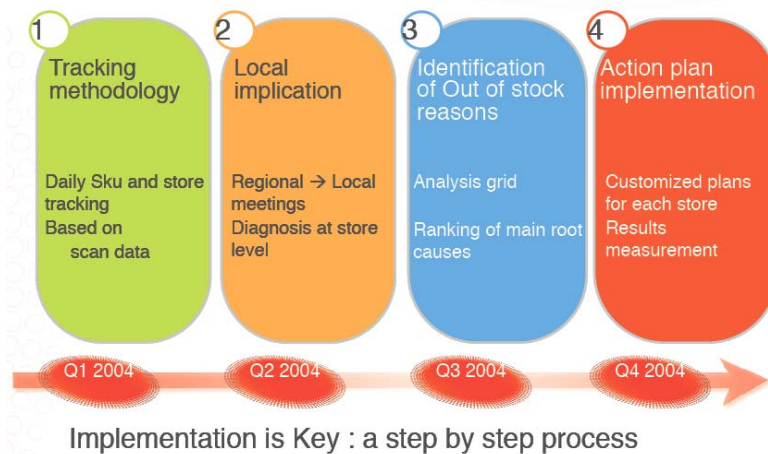


Exhibit 5.1: Example of an ECR adoption process (Source: ECR Conference 2005, Paris)

The efficiency benefits of a planned adoption are important especially for small and medium sized companies. Rivella, Switzerland's local number 2 in the fruit juice and soft drinks market, yet still a relatively small company, has to deal with above average resource scarcity compared to its main multinational competitors. For such a company a one-off project that is not integrated in the overall corporate strategy is often considered a waste of resources. Rivella first gained market insight and ECR know-how by starting an internal Category Management project for its retail channel. Rivella addressed deficiencies in the overall channel and analysed the strategic positioning of each key account. Due to the structured analysis, improvements were made quickly. For example, the company noted that one retailer frequently conducted Rivella promotions shortly after the promotion of a competitor's products. Rivella made its partner aware that both companies benefit from an optimisation of the promotion schedule. Similarly, Rivella optimised the promotion schedules based on the seasonal demand fluctuations for specific products. Through such targeted optimisation of demand and supply side practices, Rivella, through a dialogue with the retailer, gradually increased the efficiency and effectiveness of the overall channel. These first activities by Rivella resulted in immediate benefits and provided important experience that was quickly applied in day-to-day business.

Adoption experience:

Pilot projects, requiring dedicated, multi-functional and additional resources to allow learning, information exchange and structural adjustments, should be quickly adopted into normal business practices.

This statement combines three messages:

1. Pilot projects achieve higher success rates if dedicated multi-functional resources are allocated. 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. Dedicated assets limit political influences originating from department thinking and budget negotiations. Multi-functional teams combine different capabilities and perspectives, ensure buy-in and execution from different departments, and raise awareness within the company.

2. Operating pilot projects requires more resources compared to operating day-to-day processes. Pilot projects require additional efforts for three reasons: firstly, successful learning requires testing and making mistakes; Secondly, the exchange of additional data is frequently

not automated, requiring manual work. Thirdly, changes to the organisational structure require the development and adoption of a new structure and then for people to get familiar with the new set up.

3. Benefits are felt with the broad application of the experiences made in the pilot projects into day-to-day business practices. A number of companies report that at a certain time in their ECR adoption process they got stuck in running countless pilot projects. In order to benefit as early as possible, pilot project experiences must be transferred quickly into day-to-day business practices.

In order to go beyond project status, many cases suggest the importance of linking ECR to the company's broader strategy. A successful rollout must quickly achieve critical mass of application with business partners. To benefit extensively from pilot projects it is indeed important to first focus on one sales channel in one key country with one key supplier. Yet, the quick use of the newly gained insights allows the adopter to realize the benefits. At METRO Group, senior management quickly realized that their ECR framework still needed an important feature: the link to its corporate strategy. To elevate ECR planning and adoption at METRO Group to a higher level, the 'Advanced Retailing' initiative was initiated. It puts the responsibility of strategy formulation, adoption and execution in the hands of the respective business units. At its core, the Advanced Retailing initiative has a strong focus on achieving leadership in technology through innovation. It also builds up a company wide knowledge base, e.g., on consumers and improvement projects. A company must link ECR to their corporate strategy and coordinate all activities and projects across their business units. Since the firm's strategy changes over time, these activities and projects must be refocused. Therefore, the METRO Group has initiated a continuous change management process where market requirements are being measured to drive the firm's strategy formulation, adoption and execution processes.

Adoption experience:

Participating in official ECR projects enables learning by accessing expertise from different organisations.

Since their creation the national and international ECR organisations have been providing an efficient and effective platform for both retailers and manufacturers to conduct pilot projects with minimum risk and maximum external support. The ECR organisations have often acted as neutral third party facilitators for pilot projects involving a consortium of numerous retailers, manufacturers and different service providers, including universities. Whenever necessary, they have helped build up trust among the project partners. In addition, they have addressed the latest trends and developments, suggesting those for discussion or even for conducting projects. Frequently, the ECR organisations collect the learnings from these projects and make those available to the public both through publications and events.

Many companies have benefited from the ECR organisations' work. The involvement of numerous companies in these projects often results in unique, rich combinations of different experience, different capabilities, different information and different views, all leading to better informed decision making and higher learning efficiency. In addition, the joint project work creates a core group consisting of numerous companies who support the same project result; a positive situation that helps drive the definition of an industry standard.

"Participating in official ECR projects enables learning by accessing expertise from different organisations. The national ECR organisation has provided an important platform for us and many of our suppliers to implement ECR in their companies. Today, Manor has over 500 suppliers in the process of cross docking for push and pull products and uses vendor managed inventory for over 900 items from our suppliers Beiersdorf, Henkel and L'Oréal. When implementing ECR we aim at fast roll out, lower investments and minimal risk. From my own experience I do recommend that you get involved in the national ECR initiatives. There are many examples where a cross industry approach brings better solutions."
(Georg Burkhardt, Manor, Switzerland)

In 2004, under the leadership of the co chairs of ECR Europe, Sir Terry Leahy and Franck Riboud, ECR Europe launched the Shared Learning Initiative to spur the wide-scale adoption and development of ECR Best Practices and Standards developed both at national and European level.

With the General Learning Programme supported by local organisations, joint training in category management, effective promotion, new product introduction, tracking and tracing, optimal shelf availability (OSA) and Consumer Relationship Management (CRM) have been organized in France, Germany, Italy, Switzerland and the UK. The ECR Europe's Progressive Management Programme offers a high-end education programme for senior business executives. In 2005 was created ECR Europe International Commerce Institute as a logical follow-on on this ambitious programme. <http://www.ecr-institute.net/>

For example, ECR France has launched training projects on promotion optimisation and efficient product introduction. These projects were based on the content of three ECR France blue books and were designed to disseminate best practices from the delegates from ECR member companies who participated in the initial working group, to other delegates both from the same companies and from other member companies of ECR France. The objective is to leverage the experiences from ECR projects to offer a training programme for manufacturers and retailers together about ECR strategies. Besides, this also gets people and organisations to increasingly live the ECR culture and implement best practices. In this context ECR France created a computer programme for internal e-learning purposes dedicated to its companies' members.

The cases of Gillette and Coca-Cola in Italy cite an active involvement in ECR Italy's programmes as a core factor for their success in adopting ECR. As Coca-Cola puts it, "Being an active member of the local initiative allows learning from institutional contributions like seminars, learning programs, and blue books, as well as from employees of other companies. Furthermore, we have found ECR Italy to be the right "place" to find the best partners for new ECR projects."

As presented at the last ECR Hellas Conference in March 2005, both Greek retailers and suppliers consider ECR Hellas to be one of the major, if not the most important, vehicles for information dissemination and knowledge sharing among companies in the grocery sector. ECR Hellas has conducted more than 18 demand and supply side projects since its establishment, with the participation of more than 250 companies.

The German cases suggest that participation in official ECR projects create benefits from common ECR standards. Benefits are also experienced due to advancing processes and technologies in an organisation, which creates a critical mass for adoption.

There are four major examples in the German cases featuring benefits from working in official ECR projects.

The first example comes from Kraft Foods, which failed with a first pilot project on Category Management in 1996 (as described earlier). The initiative to reassume Category Management afterwards came from the involvement of Kraft Foods in two ECR demand side projects in 1999, one being set up on the European level and one being started by GS1 Germany, the German ECR organisation.

Also, Globus benefited from being involved in GS1 Germany activities. For their cross-docking procedure with over 50 suppliers, they fully adopted the GS1 recommendation. The stores send their orders independently but simultaneously to the manufacturer who commissions the individual orders on pallets and generates a delivery note and an invoice for each store. The pre-commissioned pallets are delivered to the central warehouse located at Bingen and shipped to the hypermarkets without further repacking.

Finally, participation in national ECR initiatives helps achieve a critical mass of partners with appropriate ECR capabilities and know-how regarding advanced technologies. In the case of METRO Group, this is especially necessary to create a platform for RFID introduction. In the case of RFID tag adoption, the METRO Group assumed a pioneer position, both within the relationship towards suppliers and within the GS1 Germany organization, by agreeing with its top 100 suppliers to comply with implementation rules. This is one step to providing critical mass and will drive costs for tags further down, also enabling small and medium-sized suppliers to adopt the technology, at least in the medium term. For obvious reasons, it is absolutely not in the interest of the retailer for upstream companies to be disadvantaged through the introduction of such costly technologies or standards. On the contrary, the strategy chosen by METRO Group in the introduction of RFID tags tries to dampen the potentially negative effects on small and medium-sized suppliers.

A critical mass of participants was also achieved by Dr. Oetker by joining ECR initiatives. Due to their strong focus on quality, they have been a key player in developing the ECR Best Practice recommendation concerning traceability. Suppliers that refused adoption of labelling of pallets were convinced by Dr. Oetker to comply or risk the continuation of their business relationship. The main objections put forward by the suppliers were that the EAN 128 standards were not known, and there was a general lack of systems and processes for documenting inbound and outbound shipments. Also, at the time, Dr. Oetker was the only food company demanding such investments in information technology. By the start of 2005, however, Dr. Oetker estimates that 98% of their inbound shipments will be labelled with the EAN 128 number. Overall, the cost of doing business could be reduced for all channel partners while out-of-stock levels could be curtailed.

5.2 ECR - Adoption Barriers

In their attempts to adopt ECR, companies frequently face barriers. The experiences of the companies that participated in this study show that correctly addressing and eventually overcoming these barriers is important for sustainable, successful ECR adoption.

Adoption experience:

There are substantial differences in the understanding of the term "ECR."

Among retailers, manufacturers and service providers, the understanding of the term "Efficient Consumer Response" or "ECR" differs, often quite extremely. For some people, ECR is an umbrella term for any kind of retailer-manufacturer collaboration. For others, ECR is a concept for data exchange between the two parties. Another view considers ECR to address replenishment problems in the supply chain only, and frequently category management is separated from ECR. Many people are not aware of ECR's multifunctional approach. They understand ECR as either a demand or supply side approach depending on their personal encounters with ECR. Occasionally, confusion with the terms "supply chain management" and "collaborative commerce" appear.

Puzzled by this ambiguity in terminology themselves, managers struggle to get the message of ECR across to their staff.

Also, this ambiguity slows down the pace of ECR projects, as the people involved need first to agree on joint definitions to avoid misunderstandings. Still, misunderstandings are common. In some countries the predominantly English wording of ECR concepts inhibits their dissemination unless there is proper translation into the local language.

The numerous activities of both the ECR organisations and of some of the major retailers and manufacturers have undoubtedly enhanced the general understanding of the term. However, to resolve this "tower of Babel" situation, companies need first to adapt the standard definition of ECR, making it specific to their organisation, and second, share this definition within the company. Only by taking these two steps can managers ensure that people within an

organisation and between two organisations understand one another and are able to address issues in a precise way.

Adoption experience:

Some ECR concepts are perceived as being overly complex to be adopted.

Many people are dazed by the complexity of the ECR concepts and processes. As this is quite a subjective reaction in each case, one should differentiate between three ways to explain this response.

First, certain ECR concepts tackle traditionally complex processes and work relationships. The status analysis run at the beginning of ECR adoption often reveals complexity which people are little aware of. Although ECR concepts promise to reduce complexity, people frequently fear that ECR adoption could further increase complexity.

Second, some ECR concepts are presented and discussed predominantly in their ideal form, incorporating above average levels of complexity. This form of presentation suggests the concepts' full potential that could be leveraged out of retailer-manufacturer collaboration. Frequently, people understand these ideals as the only way to adopt these concepts, forgetting the option to simplify and adjust these concepts to their needs. The two concepts which are most frequently considered as being too complex are category management's 8-step process and the 9-step process of CPFR.

In Germany, for example, METRO Group and Procter & Gamble have simplified and adapted the ECR concept Collaborative Planning, Forecasting and Replenishment (CPFR) to their collaborative requirements. Whereas forecasting of day-to-day business was considered sufficiently accurate, additional benefits from collaboration were to be sought through promotions. The execution of promotional events was improved by adopting Collaborative Promotion Management (CPM) in 2002. CPM is the partners' pragmatic approach towards Collaborative Planning, Forecasting and Replenishment (CPFR). It is based on only four steps, instead of the original nine steps, and is exclusively applied to promotion items.

Third, people have limited time to study and understand ECR concepts. If people do not have time and resources to fully understand ECR concepts but are under the pressure to continuously achieve their day-to-day objectives, any suggested change turns into a work overload. People then fear that ECR will become something to do on top of their everyday business.

Adoption experience:

Top management commitment to collaborative business practices is mandatory and must be integrated into staff incentive programmes

This statement consists of two elements, commitment of senior management and adjusted incentive systems, of which the latter is the hands-on translation of top management's will to change the company's business attitude.

For companies that pursue the adoption of ECR, senior management generally shows high commitment, as in most cases, this is where the decision to start adopting ECR is taken. Also, the intensive participation of numerous top managers from retailers and manufacturers in the different ECR organisations demonstrates their extraordinarily high commitment.

The importance of senior management commitment was found in all cases. At Kraft Foods in Germany, for example, the CEO with his management team ensures the continuous development and successful adoption of ECR to utilise the potential benefits along the supply chain with the company's trading partners. Kraft Foods integrated its ECR efforts clearly into its mission statement and its organisation, making it a visible goal throughout the company. A strong emphasis on top management commitment was also observed in France. Système U,

among other French companies, for example, signed the ECR France CEO Charter, in which the CEOs of the partnering companies commit themselves formally to adopt ECR principles. It ensures that the partnership will benefit from top management support at both companies. In Italy and Greece, ECR adoption was strongly driven personally by several CEOs, e.g. of Coop Italia and Veropoulos. Not only did they integrate ECR in their own organisations but also marketed ECR within their industries in order to faster achieve critical mass.

In contrast to the clear top management commitment, companies report to have made limited adjustments to the incentive systems of employees on operational levels. The perpetuation of rather traditional objectives, which are often narrowly focused indicators, frequently undermines ECR adoption. E.g., when key account managers are predominantly measured on and rewarded for increased sales through their channels, they have little interest in changing their business approach. Generally, people do what they are measured and rewarded upon. Senior executives may have great visions and goals, but if their staff's objectives remain specified in other directions these will never ever get realised.

Several Italian, French and Spanish managers mentioned the difference of culture between management and operative levels to be a major barrier to ECR adoption. They agree that management commitment is a fundamental driver for ECR adoption, but they warn that if the operative levels have no incentives to support the partnership, the traditional short term focus on immediate sales and profit harms collaboration execution.

The rare inclusion of ECR adoption targets in companies' incentive systems points to a major opportunity to boost efficiency of ECR adoption activities. Not only could incentive systems represent ECR thinking, a rolling update of the incentive systems may also enable a much more targeted approach to change management, as will be discussed in chapter 6.6.

The case of Dr. Oetker in Germany provides an example of how companies can benefit from the inclusion of supply chain targets in the objectives of sales teams, eventually optimising business practice on a system level. Dr.Oetker aims at high product availability to end consumers and continuously monitors service levels of retail orders and returns on a key account basis. These indicators are now part of the way that evaluates the performance of key account managers, making it an important part of the incentive system.

"Top management commitment to collaborative partnerships is absolutely mandatory and must be integrated into staff incentive programs. It is clear that the decision to change our business practice towards a more collaborative approach was initially taken by CEOs. In Italy for instance, our General Manager himself made the initial contacts to our key retail partners and jointly kicked off with their top management many of our partnership initiatives. This was absolutely essential to establish the new vision and to empower the entire organisation to a partnership approach. However, it is fair to say that you need more than top management commitment to adopt ECR principles in an organisation, translating them into day to day business practises.

Following an ECR approach is a substantial shift in business attitude. It requires quite an extra effort to change procedures and to change the way we relate with customers. Therefore, people need not only clear direction but also some reinforcement. We soon discovered that if and when people were sticking to the old non cooperative habits this was because our incentives systems were not fully aligned with the new approach. That was quite a challenge but, we can say now that our incentive system includes objectives related to a more cooperative approach. By doing so we can say that all the key people in the organisation involved in either the supply or the demand side are now rewarded for joint business planning and are driving the processes with key customers."

(Maurizio Bonfante, Gillette, Italy)

Adoption experience:

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.

ECR-style collaborative activities are based on the philosophy of sharing to gain more - an approach that goes in completely the opposite direction to the business practice in traditional retailer-manufacturer relationships. Obviously, changing deep rooted employee mindsets and organisational behaviour from adversarial to collaborative along the vertical supply chain is both a key requirement for, but also a profound barrier against, ECR adoption. Overcoming this barrier has likely consumed most of the efforts invested into the ECR adoption activities since the idea of ECR emerged.

As trust is a phenomenon that resides entirely in people, raising the level of trust of one company for another depends on the positive experiences of individuals who can see that this organisation reliably fulfils their expectations. This specific nature of trust leads to situations where, for example, companies trusted the other's supply chain but not their marketing department. Yet, ECR requires that a company can trust at a certain level the entire partner company.

Traditionally, many retailers and many manufacturers have worked at arm's length from one another, distrusting each other's isolated activities as probable moves to improve negotiation power. The formula of business success was clearly defined: one cent saved by one party means one cent lost for the other party. Any means were welcome and used to improve power to win this price battle. Hence, traditionally, trusting the other party was the only strategy that for sure harmed one's own positioning and negotiation power.

Over decades buyers were trained in capabilities to get the lowest purchasing price for a product. On the other side, the sales force was equipped with leading edge marketing instruments and the backing from brand-loyal consumers willing to switch stores if they could not get their products. For people who have worked for years under this paradigm it is difficult to understand the benefit of jointly working for the consumers' benefit, and to eventually change their way of doing business. Also the differences in company size may harm trust. In Italy, smaller retailers have expressed their fear that large multinational manufacturers might use their power to gain insight into their organisations without providing insight into their organisation in exchange.

Exchanging POS data is a brilliant example of the lengthy and painful process of ECR adoption. Despite the common practice of market research companies providing data on retailers' sales, the retailers themselves had high reservations about making their sales data available to manufacturers. Retailers had limited understanding of what manufacturers could do with this information and thus feared an erosion of their power in the relationship by disclosing such data. Often, it required several more or less successful pilot projects during which they experienced the relatively harmless effect of sharing POS data, and realised the benefits of better understanding their customers and market dynamics. This self-created experience of the limited risk and the big benefits prompted one retailer after another to make their POS data available - some for free, others charging for the data provision. This mechanism does not include sharing confidential information about competing manufacturers via the retailer data pool.

Another example is collaborative replenishment. Similar to the POS data exchange example, inter-company trust develops over time, when each partner experiences the other one acting in the interest of the partnership, sticking to the common rules and common objectives. Naturally, over such a process of shifting from distrust to trust, occasions occur when organisational entities or employees fall back into traditional behaviour and harm the process. In these situations top management commitment becomes crucial as such crisis often have to be resolved at the highest level. Managed correctly, such crises strengthen the company's

credibility in the partner's eyes, demonstrating internally that the old way of doing things is no longer accepted, and in some cases even boosting mutual trust.

Numerous companies had to overcome the fundamental problem of having insufficient trust to actually start with ECR. The common strategy of dealing with this was to bring in trusted third parties who helped to mediate among the two companies. These players collected data from both partners and made sure that only non-critical data was made available to the other. They facilitated the project by structuring the workshops and by organising the decision making processes. Different kinds of organisations have successfully acted as trusted third parties: management consultants, academic institutions, or the national ECR organisations.

Another strategy was to run pilots in front of a larger audience, using the power of social control. Pilot projects that were run as official projects of a national ECR organisation and that continuously reported status and progress to that national ECR organisation's members put pressure on the involved parties to behave properly in order not to lose credibility in the industry. A manufacturer's unfair play against the retailer involved in the project would become known immediately to the other retailers that are members of that national ECR organisation. Obviously, all these retailers would react with caution towards this manufacturer, which could result in a negative perception of the manufacturer. The same holds for unfair play on the part of retailers.

Adoption experience:

Companies hardly monitor ECR-adoption in day-to-day business practice; hence they do not actively manage broad ECR-adoption.

Most senior managers state that the adoption of ECR is a very complex and difficult change management task, requiring good planning and progress control. In the spirit of the saying "You can only manage what you measure," companies should thoroughly track ECR adoption progress in order to be prepared to immediately interfere if the targeted adoption levels are not achieved.

Possibly one of the most surprising finding of this study, however, shows little evidence of companies actually monitoring ECR adoption progress. Hence, those responsible for ECR adoption within a company, should ask themselves whether the large investments put into ECR adoption should merit increased focus on measurement and tracking to reveal what actually is being achieved.

It became also obvious in the study that only few companies ask their operational managers, i.e. key account managers, product managers, or buyers, to report ECR adoption levels or progress or any other information on the adoption of collaborative processes to their business partners in their annual reports.

In no case was it reported in the annual product performance reports, in which product managers are asked to mention improvements in and impact of the collaboration with trading partners. Because of this lack of operative reporting it is very difficult for companies to know their real ECR adoption level and to assess the impact of ECR adoption on their business success.

What companies frequently measure are specific key performance indicators to create awareness of business success and operational efficiency. Some have added specific indicators to measure performance in a specific trade relationship. A major focus can be found on supply side indicators. However, without keeping track of the actions taken to foster performance (i.e. ECR adoption), it is hardly possible to analyse its impact. If, for example, a company does not track category management adoption, how does this company know whether the increased market share was caused by collaborative action or by any other controlled or uncontrolled factor, e.g. sales prices, competitor action, or customer trends?

"For the past 10 years, senior executives of retailers and manufacturers around the world have been driving collaborative efforts to better serve the consumer via ECR. Nowhere is this more apparent than in ECR Europe. The quality of resources and the time investment around ECR has been impressive yet most feel we have a long way to go. Today, too few companies monitor ECR-adoption and the business benefits delivered in their day-to-day business practice. It is important that companies internally, trading partners collaboratively and the industry collectively understand how effectively we have adopted the ECR processes, how these processes have improved our business results, and where those processes can yet improve both our results and how we serve the consumer.

The Global Scorecard is a ready-to-use tool for just this purpose. It can be used to measure, track and benchmark ECR resultant Key Performance Indicators and Adoption measures. If you are happy with these results declare victory. If you believe these results can be improved, the Scorecard tool can be used to assess how well your company or your collaborative trading relationships are integrating the ECR Best Practices.

Much of this is about change management. Change has to improve hard business results and the Scorecard tool has been designed for us all to "manage what we measure".
(Jim Flannery, Procter & Gamble, USA)

The ECR organisations have jointly developed the Global Scorecard to enable measurement and tracking of ECR adoption progress and its benefits to companies' performance. Many of the multinational retailers and manufacturers have some experiences with this tool but, unfortunately, the Global Scorecard is still not used by sufficient number of companies with the industry, whether at manufacturer or retailer level.

Some mentioned that they consider the Global Scorecard to be too extensive, requiring too much time to assess the ECR adoption status. To try to address this issue, shorter scorecard versions have been introduced: the entry level, the intermediate level and the compliance scorecard.

As indicated, ECR is about change and the terminology used in the scorecard is partially different to each company's specific internal language. While some companies have started to adopt the ECR language, others prefer to conserve their own traditional terminology and internal scorecarding exercise.

The head of logistics controlling at SPAR Switzerland underlined the complexity of defining a controlling system and its impact on companies' activities. He pointed out that the controlling of operations increasingly needs to address two challenges.

First, businesses should come to understand that controlling is not just a challenge of compiling and analysing isolated sets of data. Too often, companies optimise one indicator at the expense of another that may be less rigorously controlled by the company. Service levels in a supply chain are a good example. Customers need to be careful of suppliers priding themselves on excellent service levels only. If stock rotation is not measured at the same time, then amazing service levels may simply be the result of overstocking. Ultimately, both one's own company and the supplier will pay the costs of having focused on one indicator only rather than looking at an integral set.

However, even looking at an "integral set" of either demand or supply side indicators would not suffice, according to SPAR's head of logistics. Sometimes, root causes of problems become only evident if one looks at both the supply and the demand side indicators of a specific period. Hence, to take a fresh start at controlling, it is important to cross department and company boundaries.

He further added that businesses often fail to consider the "human" aspects of controlling. As performance is driven by the capabilities of a company's employees one should consider

employee-related indicators, too. Finally, he emphasizes that businesses need to drive forward the standardisation of controlling approaches. If one company measures a KPI at the level of consumer unit while the collaboration partner keeps on measuring at the level of pallets, it will be difficult to track the effectiveness of a collaboration project. In order to gain the legitimacy for taking the pilot project and rolling it out on a larger scale, he argues that controlling needs to become more standardized along the supply chain.

Adoption experience:

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.

Although the ECR philosophy itself is rather simple, putting ECR into practice requires new skills from the organisations involved. During the early stages of the ECR movement, companies were in the difficult situation of having to develop necessary skills during pilot projects. In fact, at that time it was unclear how the joint processes might look and thus also what additional skills would be needed to run those. Some companies made major investments into the development of such skills. In some cases, this uncertainty caused irritations in the retailer-manufacturer relationships. People were unsure whether they were doing the right thing, and they often had many opposing views on how to best come to the targeted decisions.

The missing capabilities were of different kind. Some IT systems, for example, did not allow generating or transferring required data. Some IT systems did not recognise specific standards for data exchange. To interpret new kinds of data it was required to build up an understanding of what information can be gained and how this needs to be computed. The development of cross-functional understanding of the business processes has started only recently in many cases.

Many companies feared that they wouldn't be able to run the collaborative processes well enough, and that they would not be able to achieve the desired results, or even maintain their traditional performance levels, as ECR adoption requires initial investments before benefits can be realised. Especially in cases where companies were very short-term profit oriented, or where operational managers had to ensure performance improvements, this fear stopped their ECR adoption efforts. Others feared that in a pilot project their business partner would perceive them as possessing only limited capabilities, potentially harming their reputation.

The uncertainty about the tangible benefits from ECR adoption caused substantial hesitation among companies when the investments were necessary to build up required capabilities. The difficulty of not having a sound return-on-investment analysis required that only such companies proceeded where top management was so convinced of ECR that budgets were provided from highest level.

Today, with companies having vast ECR experience, with countless publications on ECR concepts and processes being available on the market, and a growing body of ECR education, acquiring ECR skills has become much simpler. Also, many companies have seen benefits from ECR adoption either by their own experience or by the success of competitors, providing arguments for investments. Finally, several major retailers have adopted ECR processes so that suppliers need to adjust their processes accordingly. Nonetheless, adopting some of the advanced concepts of ECR, such as CPFR, for example, requires specific capabilities that most companies do not have to date.

The Swiss cases show that ECR adoption requires both technical and management skills. In some cases, companies tend to handle the two independently, but in order to benefit most from ECR both should be considered. Technical skills enable organisations to run ECR concepts like category management, continuous replenishment or EDI use. In the 1990s, small and medium sized companies in particular, decided to wait until the multinational companies completed their first pilot projects. Based on these experiences they decided how

to proceed themselves and how to invest their employees' precious time to train in the new skills. Today, a lot of ECR experience exists, and smaller companies in small markets such as Switzerland have started to send employees to ECR training programmes.

Yet, in addition to the technical skills, management skills are needed for ECR adoption. These help companies to initiate supply or demand projects, to take the project lead, to streamline category management projects with the EDI, etc. Ultimately, the key management skill is to lead ECR adoption and integrate it in the broader strategy of the company. Swiss managers underlined that newly developed ECR capabilities should quickly be put into the broader context of the company's many activities. Instead of isolated steps, they argue that it is the integration of multiple capabilities that allow the most benefit from ECR.

Some recent ECR-adopting suppliers in France have focused first on the supply side. Together with experienced retailers they have built up new capabilities. A particular emphasis on intensive documentation and knowledge sharing during every adoption step allowed them later to rapidly spread best practices within their organisation and with customers to leapfrog the initial stages of adopting ECR.

"A major barrier to getting started with ECR is that companies often lack the specific capabilities required to fully benefit from an ECR approach and hence they can be somewhat reluctant to invest. We experienced this ourselves with our first ECR trials almost a decade ago which to be honest were rather frustrating. We were not ready, retailers were not ready and the ECR message tools were highly complex. However, a restart in 1999 with a clear vision, senior management support, a strong focus on pragmatic approaches and the right organisational set up led to success and we could overcome the challenges. Today, with the guidelines, experiences and pilots available companies can more easily develop these capabilities without the need for major investments. In culmination with the training offers it brings further efficiency into our businesses."

(Reiner Stoll, Kraft Foods, Germany)

Adoption experience:

The technological requirements to automate elements of the ECR concepts are still unmatched.

An often encountered barrier to transfer ECR adoption from the project to the process level is the lack of specific technological capabilities. While automation plays a limited role during pilot projects, at which point people are prepared to put extra effort into manual systems, it becomes crucial for roll-out. The new ECR processes have to be more efficient than the traditional processes, and automation is a mandatory requirement for this. It is unrealistic to assume that people would spend much time on a rolling forecast for each product or product group through a specific distribution channel. Sufficient efficiency can be achieved only if reliable forecasting tools support this planning. In fact, this is one of the major barriers to CPFR use. The accuracy of POS and inventory data is still below the levels required for reliable computing. This also hinders the use of tools that help in evaluating promotions or new product introductions. Finally, many communication standards still lack critical mass.

The differences in suppliers' technical standards are substantial. Today, some large multinational firms and the majority of the small and medium sized companies lack adequate communication systems and processes. This is not to say that every company simply needs new systems: new technologies also require standards in information technology and communication. These standards are a key prerequisite for successful ECR adoption.

At Globus in Germany, all common identification standards are in place. The bottleneck for standard electronic messages, therefore, lies in the capabilities of the suppliers. At Globus adoption of EDI-messages should be able to complete an effective and paperless communication with suppliers. Globus would send orders to the supplier (ORDER), the supplier sends the despatch advice (DESADV) back to Globus. Thus, the outlets are informed about the articles to be delivered and deviations in the supply quantity; this is done before the

merchandise arrives. On receiving the merchandise Globus confirms it with a receiving advice (RECADV) and the supplier transmits the invoice (INVOICE). However, this is far from being achieved: Out of the 3.500 active Globus hypermarket suppliers, 635 use ORDERS, which is about 42 percent of total Globus sales. DESADV are only sent by 262 suppliers. Only 5 suppliers use RECADV. The lack of capabilities is a continuous topic in negotiations with the partners. While the big suppliers of e.g. drugstore items or frozen food have already adopted EDI, many medium and small sized firms, which supply niche articles for Globus, are far behind.

Globus considers this problem as highly critical for the further acceptance and adoption of ECR in the retailing industry. Currently, ECR is primarily pushed by the big, well-known companies which have the financial resources for such efforts. The major risk is that small and medium sized firms cannot catch up with this new development. The management of Globus is pushing for the integration of these companies into different ECR committees. "Without them", says the head of the Globus Logistics and Services organization, "the useful and promising ECR efforts do not have the critical mass for many retailers, especially not in the utilization of the new technologies. A good example of this problem is the still missing EDI interface at many small firms, requiring retailers like Globus to handle their invoices still manually, which is extremely costly."

Web-based solutions have emerged, allowing retailers to send their orders and invoices via the Internet. Suppliers can then consult the orders and confirm them also via the Internet, without investing in a costly EDI infrastructure. This approach has enabled all major Greek retailers and more than 200 suppliers to get involved in electronic communications in less than a year, facilitated by internet-information exchange and electronic intermediaries. With the traditional, expensive and complex EDI approach, the adoption of electronic communications had been limited to just a few companies for several years.

Secondly, there are still differences in the ECR efforts over the different industry branches. Most suppliers of food and drugstore items are involved to a rather high degree in the different ECR initiatives. Non-food suppliers as well as suppliers of perishable products on the other side are just starting first activities.

Adoption experience:

Companies frequently forget to integrate ECR thinking into their business strategy.

The frequent misalignment of companies' business strategy with ECR thinking is another key barrier. Many current business strategies are building upon and aimed at further increasing independence. Many retailers aim at further increasing the exchangeability of products and suppliers, and many manufacturers aim at further increasing the independence from distribution partners by strengthening their brands and increasing penetration. Entering deep, long-term collaborations, as suggested by ECR, naturally involves increased dependence on partners, which is in fact more than a step in completely the opposite direction. Obviously, employees get confused about what route to take.

The companies' traditional focus on increasing independence also fosters a strong thinking among their employees on identifying and pursuing activities that establish sustainable differentiation. In contrast, ECR fosters business standards in areas where unique approaches would create little benefits or even harm efficiency. As Procter & Gamble pointed out, it requires a shift in character to leave the primary focus of pursuing differentiation opportunities in order to also leverage opportunities from developing and adopting business standards. The two need not be mutually exclusive, however, as the adoption of ECR business standards could also serve as a platform that allows to build up joint differentiation in the long term.

Adoption experience:

Retailers' and manufacturers' traditional approaches are deep rooted in employees' mindset.

Resuming the identified barriers to ECR adoption, changing people's mindset from the traditional attitude of confrontation to one of collaboration might be the key to eventually succeeding with ECR adoption. Both retailers and manufacturers think little about joint, aligned activities to create improved value for their joint end-customers. Instead, both have remained focused on differentiating themselves through pursuing isolated strategies. Yet, collaborative thinking such as ECR requires giving up some of the individual ways to align strategies and activities. This change in business culture requires concerted efforts with maximum commitment from many companies. The national and international ECR organisations have played and need to continue playing the major driver of this process.

5.3 ECR - Impact of Market Conditions

This study showed that among different countries in Western Europe there are major differences in respect to the level of ECR adoption, the ECR adoption strategies and the benefits from ECR. Some contextual factors have emerged to have substantial influence on the pace of the adoption of ECR in a particular country.

Adoption experience:

High fragmentation of a country's industry hinders the adoption of ECR concepts. Small and medium sized companies are often ECR adoption followers.

The adoption of ECR, i.e. industry-wide standardised collaborative business processes, requires concerted efforts in an industry, making inter-industry cooperation a must. The adoption of ECR has shown faster progress in countries where the level of inter-industry cooperation is high and where companies have sufficient resources to invest into ECR adoption.

For example, the Greek market is characterised by extensive fragmentation in grocery retailing. In many parts of the country suppliers do not deliver directly but through wholesalers or jobbers, i.e. small companies representing a few non-competing companies in a local area. In order to achieve broad ECR adoption countless small companies would need to join. Yet, they are often too small to even consider getting in touch with a central industry initiative. For example, Procter & Gamble, one of the pioneer adopters of continuous replenishment (CRP), collaborates intensively on CRP with the top 10 retailers and manages only about 40% of its sales volume through CRP.

Italy shows a different picture of a highly fragmented retail market with many small and medium sized retailers. Commonly, small and medium sized retailers struggle to invest time and money into strategic corporate activities. Many have few staff and resources at the corporate level as they run their business predominantly at store level. The same holds true for retail cooperatives. Yet, the kinds of opportunities offered by ECR require strategic activities, whether it is to create higher consumer value through relationship-specific activities or whether it is to improve efficiency through industry-wide adoption of business standards. Particularly the latter requires broad participation of a majority of the companies in the industry in order to achieve critical mass.

In some cases, retail stores already use some basic ECR concepts, mainly on the supply side, without being really set into either a collaborative context or an overall ECR strategy. This partial adoption is usually the result of supplier-driven initiatives or optimisation of processes.

By contrast, in Germany or in the UK the concentration in retailing is higher and coordinating structures were institutionalised decades ago through organisations like the Centrale für Co-Organisation (CCG) or the Institute for Grocery Distribution (IGD). This has helped tremendously to broadly adopt the supply side concepts of ECR.

Several signs indicate that ECR has started to become an issue also for small and medium sized companies. With the increasing availability of affordable technological solutions and expertise both from potential collaboration partners and from training programmes, these barriers decrease.

For example, many small and medium sized companies have recently joined ECR France and adopted ECR best practices with success. As with many other national ECR initiatives, ECR France offers to their members training programmes in how to adopt ECR. They try actively to engage further small and medium sized companies in ECR adoption through multiple channels.

Prozeus in Germany is a programme launched in 2002 to help SME to adopt ECR practices supported by Global Standards. This program is sponsored by the German government.

Also, more generally, ECR adopting retailers encourage small and medium sized suppliers to adopt some ECR practices by providing internet-based platforms to efficiently exchange data and information. Now, any supplier can access, at any time and without a special infrastructure, important information such as sales in stores, the inventory of their products, or the status of their invoices. Suppliers can communicate information to the retailer over such platforms or jointly plan new business action.

Adoption experience:

The ownership structure of stores requires different strategies for ECR adoption.

In Western Europe four ownership structures are predominantly found: stores that are (I) owned by the retailer, (II) owned by a franchisee, (III) owned by independent individuals but operate within a cooperative, and (IV) owned by independent individuals that operate independently. The first two have a high degree of central decision making, while the latter two are more difficult to coordinate, as every single store owner has to be convinced to adopt any suggested change.

In general, cooperatives of independent stores (i.e. structure III) show below average levels of ECR adoption, often with a focus either on the demand or supply side. Retailers like Interdis in Italy or Edeka in Germany, who do not own their stores, are limited in their ability to put collaboration fully into practice. Management of these cooperatives drives corporate initiatives (i.e. ECR adoption) by running pilot projects with selected stores and promoting the realised results among all member stores. Cooperatives have different structures and different strengths; Interdis, for example, is strong in marketing and buying. Consequently, major successes have been made in the adoption of ECR demand side concepts. Other retail cooperatives support their members in buying and replenishment. This in turn results in a higher adoption of ECR supply than demand side concepts.

Many Italian managers consider that the high complexity of decision making and processes execution in cooperatives may not allow the best optimisation of assortments, promotions and new product introductions.

On the other hand, the example of SPAR Switzerland, which owns only one third of its stores, shows that having to deal with a complex ownership structure can also be turned into an opportunity. Central managers initially thought their structure to be a barrier if so many store owners would each like to ensure their personal freedom in determining the style of their stores and the determination of their promotions. However, seen in its entirety, the entrepreneurial skills of these store owners are an enormous opportunity. They listen attentively to the local needs in their region which they know well. Central managers may find that the store owners are a very good source for market intelligence. Yet, in order to benefit from this creative potential, a structured way of gathering their ideas and in leading them into improvement projects is mandatory. Once the store owners note that the central coordinating organisation is eager to learn from them and to use their advice for improving the operations

of the overall business, they will also find it easier to accept new ideas coming from the central unit.

Most of the leading ECR adopting retailers like Ahold, Carrefour, Metro Group, or Tesco have high control over their stores (structure I). Yet even so, they also need to put major efforts into convincing store managers and staff to join the corporate strategy of increased collaboration with manufacturers.

In fact, some case studies show difficulties in ensuring concurrent and correct execution of planned action across many if not all stores. The leadership of the retailer's central organisation was often not sufficient to run planned actions to improve, for example, on shelf availability or promotions in all of their stores. A major reason seems to be that the central organisation often lacks sufficient resources to actively control the execution of these plans in stores. Also, the organisational structure of those retailers is problematic, as the stores are usually directed by a separate department and are regionally divided while the other departments like supply chain, marketing or sales are organised nationally. These varying (hierarchical) structures cause differences in cultures and difficulties in communication.

Adoption experience:

The intensity of the price pressure in a market impacts ECR adoption.

Despite the general trend in Western Europe that consumers increasingly pay attention to the price of grocery products, the intensity of the price pressure still varies by country. While in Greece or Switzerland price is still only one factor among others in retailer competition, the price battle in Germany or in the Netherlands has become fierce, with price being shoppers' major decision criteria. Many executives fear that with the strong growth of hard discounters throughout Europe many countries might follow the German example. Further strategies and progress of ECR adoption need to consider the high importance of attractive prices.

High pressure on prices forces retailers and manufacturers to achieve maximum efficiency, e.g. through the adoption of ECR. In Germany, where price pressure is among the highest in Western Europe, the industry has put a lot of effort into developing and adopting business standards. Major savings have been realised on the supply side despite continuously rising numbers of product variants. On the demand side, promotion costs have been reduced. Such cost savings enabled retailers to further reduce prices while securing margins.

However, high pressure on prices can also drive retailers and manufacturers into some form of lethargy. Some companies report that too low profits hinder them from investing further into ECR adoption. In several Eastern European countries like Hungary the price battle not only caused a halt in investments into business development but also harmed store operations, eventually reducing consumer value.

On the contrary, comfortable profitability in combination with rather unique entrepreneurial thinking in retailing has driven ECR adoption in the UK. Some major retailers used their surpluses to invest into new approaches like ECR to further improve their business. The fast success of these initiatives allowed these companies to invest the additionally gained surpluses in even more intensified business development, positioning them today at the forefront of retailing.

Adoption experience:

The overall business climate of a country impacts ECR adoption.

ECR adoption, like any strategic initiative, requires investments generally financed by companies' own-generated surpluses. However, over the past years, retailers as well as small and medium sized suppliers have become exposed to ever lowering profitability. The stall in consumption of food and near-food products puts ever more companies into the position of fighting for survival instead of thinking of business development. Retailers' hopes to improve

their profitability through the consolidation they have witnessed over the past years have increasingly disappeared, while most of the small and medium sized manufacturers hardly have sufficient resources and knowledge to invest alone into ECR projects, as mentioned above.

The case of Italy may help to further illustrate the situation. The country has an unusually configured economic system, in general, and retail system, in particular which has a considerable effect on ECR adoption and development.

First, one can mention the economic depression which has characterized recent years. Despite some weak signals of recovery, Italy is getting over it much more slowly than other major European countries. Furthermore, it has been observed that consumers are shifting their expenditure from grocery items to other expenses such as telecommunications, travel, or entertainment. Besides this, after the Euro introduction, retailers were accused of being a major cause for inflation. Consequently, the government administrations, following a deflationary policy, asked them to maintain a stable price for specific products. While macroeconomic data confirms the success of their policy (grocery prices grew significantly below average inflation), the public opinion and the media has not changed.

In such a climate, companies and, most of all, retailers did not find effective consumer-value-drivers others than price cutting. In 2004, nearly one third of the hyper- and super-market sales happened during promotions, with an average price reduction of 25%, whereas the market-share for discounts grew up to nearly 10%. Therefore, most of the Italian companies' efforts were dedicated to negotiations and promotions rather than to collaboration.

Looking specifically to the retail industry, despite the very high concentration in terms of purchase associations (the turnover of the top five is nearly 80% of the total sell-in), there is considerable fragmentation in terms of chains: the highest among the European major countries. Thus, suppliers willing to develop collaborative initiatives as supply chain management specific to a retailer cannot find partners breeding adequate sell-in volume to guaranty economies of scale.

Moreover, Italy presents a very high index of retail intensity (number of store per 1.000 people) which means a lot of small stores have intrinsic inefficiencies in "producing" commercial services, and therefore, higher gross-margins and higher consumer prices.

In conclusion, the Italian situation is characterised by structural limits (as the high fragmentation of retailing and an unfavourable trade regulation) which, together with the tough competitive climate, represent major barriers to ECR adoption.

In France, which is one of the most regulated retail markets in Europe, a more temporary effect on the business climate in retailing was recently caused by a public and political discussion of the negotiation of terms and price settings in retailing. In 2004, the French government tried actively to reduce the consumer prices by 2% on average in order to increase the buying power to spur spending and in this way revitalize the French economy. The so-called Galland law, that hinders retailers from selling goods below cost price, was at the centre of the discussion as it was considered to favour high consumer prices. This discussion lasted for months without a clear consensus among the parties involved, i.e. the French government, retailers and manufacturers as well as their respective trade associations. This everlasting discussion caused high uncertainties in the retailing industry and most companies preferred to wait for an agreement before starting their yearly negotiations for 2005. It only became clear very late that no changes would occur before 2006 and most companies started 2005 without having conducted any negotiation for that year. This stop in the negotiations directly affected many ECR projects that were awaiting some agreements in the negotiations to be launched (e.g. efficient promotion projects).

5.4. ECR - Impact of Business Standards

Although each country has a different business context, it stands out in this study that some similar practices and business standards in the retailing industry have supported the adoption of ECR at a European level.

Adoption experience:

Category Management has become a standard business practice among fast moving consumer goods manufacturers and retailers across Europe.

Today's almost industry-wide adoption of category management in the fast moving consumer goods sector across Europe might be the most remarkable proof of the progress of ECR adoption. Many case studies illustrate that adopting category management has provided a suitable structure to roll-out an integrated ECR strategy. Moreover, it has been recognised to facilitate further deployment of ECR concepts.

Only five years ago, category management was at its outset and thinking in categories, i.e. groups of products that are perceived by consumers to be related or substitutable in meeting their needs and preferences, was new to the majority of retailers and manufacturers. Even those who pioneered in category management were at that time mainly on a test level, running pilot projects only.

Category management is designed as a collaborative process as it involves interrelated activities of retailers and manufacturers. The initial 8-step category management process proposed by ECR Europe, sometimes criticised as being overly complex, has been the reference model for most companies' approaches to its adoption. Meanwhile, the process has been simplified in business practice as it became apparent that some of the steps in the initial process do not have to be addressed continuously. ECR Europe later published a day-to-day category management proposal that responds to this matter and suggests options to shorten the processes. Many companies report that a briefer and simpler process has facilitated the adoption of category management within their organisation.

The creation of specific category manager positions and the establishment of distinct business units for each category at major retailers and manufacturers have institutionalised the adoption of category management. The alignment of the internal structure of manufacturers and retailers on categories has changed the focus of their activities from a single product towards an entire category, intensifying their mutual need for understanding shoppers and consumers.

Indeed, category management's vast need for comprehensive information and data on consumer and shopper behaviour as well as on the partners' strategies required the collection and exchange of information on an unprecedented scale. In addition to new organisational structures, retailers and suppliers have started to adopt systems to gather information and analyse data to better answer the questions raised by category management.

An important prerequisite for any regular exchange of information is the joint target to establish a trustful retailer-manufacturer relationship. As trust develops little by little, the quality and the quantity of shared information has increased over the years. IT solutions and interfaces have enabled regular, protected exchanges of data. In addition, specific workflow management solutions have been developed that support category management with a structured approach and put the consumer at the centre of business processes.

In many retailer-supplier relationships, category management was the lead element in their joint ECR adoption activities. The focus on categories has helped manufacturers and retailers to jointly follow common objectives, i.e. provide more value to consumers and increase category sales.

Ramping up day-to-day use of category management allowed the partners to get to know one another and to better understand the others' business processes. It has also deepened the understanding of their respective consumers or shoppers, facilitated the development of shared objectives and most importantly fostered trust. With that, in many relationships category management laid the foundation for much smoother adoption of other ECR elements.

Some retailers have asked specific manufacturers to almost fully manage their assortment in a specific category on their behalf. This role, known as Category Captain is not without debate, and some retailers like Tesco in the UK in contrary insist on their independence to freely make decisions on their offerings. Consequently, these retailers have assigned to manufacturers, usually category leaders, the role of a category adviser.

"Category management is the core approach to align the interest and activities of retailers and suppliers. Hundreds of projects of category management have been presented at ECR conferences. For years, most suppliers have created the position of category managers; and retailers have made category management part of their staff's normal activity. Category management has become a standard business best practice for almost all consumer goods manufacturers and retailers across Europe. When in 1993 ECR was launched, everyone in our business had a different system in place to sell products. We all talked about products, but never about consumer needs for product bundles. Nowadays it is quite different. If you are concerned about category management you have to focus on the consumer, his needs and wants. This is not simple. It means you have to conjugate everything you know about the product, with everything you know about the consumer. It means you have to stress and satisfy your consumer in every stage of the process of category management: starting from strategic alignment, and from the definition of categories, to the adoption phase, and the revision phase. You must never forget the fundamental objective of satisfying consumers on an efficient and effective basis. This allows us to combine our retailing knowledge with the many outstanding competencies of our suppliers. The benefits can be experienced by the consumer every day."

(Giorgio Santambrogio, Interdis, Italy)

Today, with category management being widely adopted, the next requirement is to integrate category management with other ECR elements that have already been adopted, especially of a supply side nature. Ultimately, companies want to deeply connect the demand with the supply side. Some companies regularly structure cross-functional project teams that involve the respective category managers. In addition, those teams are usually composed of the key account manager and members from the supply chain, IT, sales or marketing departments. However, the daily business processes are mostly not managed yet in such an integrated way. When asked, many companies investigated in the cases claimed that this is the next step they are heading for, although the achieved level of integration varies between companies.

Adoption experience:

Organisational interfaces between retailers and suppliers have become more efficient and standardised.

Among the major similarities in the European adoption of ECR is the wide adoption of new organisational structures that allow the running of collaborative business processes more efficiently. An important part of this reorganisation was paired with the adoption of category management. Prior to the adoption of ECR, the interface between a retailer and a manufacturer was usually focused on one person on each side: the retailer's buyer and the manufacturer's key account or sales manager. These people used to meet only once a year for the annual negotiations with little time to discuss general issues. Communication often consisted of informing the other company about one's own, isolated decisions (e.g. new product specifications, promotional campaigns, etc.) or periodical contacts due to problems usually in the supply chain. Organisational structures were not transparent to externals, with the result that in case of a logistics problem a manufacturer's logistics manager would not

know who the person in charge would be at the retailer and with whom to resolve the problem. This caused simple errors which often took a lot of time to be located and corrected.

Also, many companies' marketing and sales departments have operated independently from purchasing, production and logistics. Often, the decisions of one department came as a surprise not only to the other company but also to the other departments within the same company. With the creation and adoption of cross-functional teams and group decision making, companies addressed this problem first in project organisations. As stated before many companies are only now starting to work in a more integrated way. The internal integration of the supply and the demand side is indeed a mandatory step for the integral adoption of ECR. However, this seems to be a long process that requires an important reorganisation and is usually approached gradually.

Standard ECR business processes (as proposed by ECR Europe) suggest in detail every step to follow and recommend which decision makers should be involved in each step. As the leading ECR adopters jointly developed and adopted these processes, an industry-wide and standardised form of ECR processes emerged. Thereby, clear responsibilities have been defined that enable these standard ECR business processes to be run. This caused major changes in responsibilities and internal organisational structure.

In addition to adopting ECR-suitable structures, most companies have tried to tailor their interface's structures to those of their major business partners. The significant role of the ECR pioneers in the prevalence of a particular interface's structures for ECR partnerships can be illustrated by the following logic. As soon as a major retailer decides, based on some successful pilot projects to organise its interface in a more suitable structure for ECR, most of the manufacturers that are convinced by these pilots decide to adopt the new interface's structure too. As soon as another retailer wants to make changes in the interface with its suppliers, it usually also follows the successful example, assuming that this would ensure a broad acceptance by its suppliers. The same logic holds for manufacturers.

The fact that the same actors are involved in various ECR partnerships has clearly contributed to disseminating the kind of interface structures that were successfully used in other partnerships. Obviously, most changes in the communication interface with ECR partners were paired with internal reorganisations and new definitions of the respective tasks and responsibilities of the people involved.

Today, interfaces have been broadened and structured in such a way that decisions can be efficiently made by the responsible people from both organisations, manufacturers' logistics managers with retailers' logistics managers, manufacturers' key account managers with retailers' buyers and so on. The basic organisational structure at the interface between retailers and manufacturers has become quite similar, making it much easier to find the responsible person and to make a decision. Several companies call the phenomenon of similar organisational structures at the interface a "mirror organisation."

As a result of the strategic commitment of Coca-Cola Entreprises and Système U to ECR, both companies have aligned their interfaces to build a kind of "mirror according to ECR France's CEO Charter. The two CEOs, at that time co-chairmen of ECR France, the two commercial directors, the buyer with the key account manager, the supply chain manager responsible at Système U with the supply chain manager responsible at Coca-Cola Entreprise, the person responsible for marketing and promotions etc. In that way everybody knows who his counterpart at the partner is. The coordination is done by the key account manager at Coca-Cola Entreprise and jointly by the ECR Manager and the buyer at Système U. Corresponding teams are available on both sides and this fosters shorter decision paths and encourages the development of new initiatives.

"When I look back, it seems unbelievable how inefficient we had been in working with one another. But thanks to ECR, our relationship with retailers has completely changed. We plan our business jointly, we talk directly to each other and we simplify the flow of goods. Organisational interfaces between retailers and suppliers have become more efficient and standardised. Finally we serve our consumers better. Let's keep on anticipating and sharing our strategies to work quicker and better towards excellence."

(Jean-Marc Tilliard, Unilever, France)

In Germany especially suppliers have mirrored ECR in their organisation. In 1999, Kraft Foods aligned its organisation with ECR demand and supply side requirements. Demand and supply side have been completely integrated into the account teams. The organisational set-up mirrors the organisation of the retailers along categories, which are supported by both customer marketing for the demand side and a customer service centre for the supply side. This set-up provides the basis for an effective use of ECR tools and concepts. For example, it allows customers to benefit from tailor-made promotion or category management plans.

The centralized logistics and the decentralised store system at Globus are mirrored in the organisational integration of ECR. Globus Logistics and Services is responsible for ECR activities, especially for the supply side activities of ECR. The organization of the demand side is twofold. It is both stores and headquarters that are responsible for price and category management as well as optimisation of assortments, promotions and new product introductions.

Adoption experience:

The increasing definition and adoption of global standards has enabled efficient data and information exchange.

The use of global identification and communication standards is an important requirement to efficiently run collaborative business processes.

Several years ago, the Global Commerce Initiative (GCI) was founded to coordinate the different, often isolated approaches to data and process standardisation. Only recently, and having been driven by ECR Europe and GCI, have the North American Uniform Code Council (UCC) and EAN International merged into one global standardisation body, Global Standards 1 (GS1). Ultimately, this enables the definition of a global system. The 14-digit global trade identification number (GTIN), the EAN/UCC 128 based serial shipping container code (SSCC), and the global location identification number (GLN) are among the most important standards. With the development of the radio frequency identification technology (RFID), GS1 works on the development of a global electronic product code (EPC).

Furthermore, GS1 has developed a global product classification (GPC) that allows a common classification of any kind of product around the world, a major advantage in structuring complex product databases. Also, GS1's Global Data Synchronization enables the establishment, loading, registering and synchronising of item and party data based on one common standard. A major retailer reported a 30% productivity improvement in the data management caused by the adoption of GS1's Global Data Synchronization.

The adoption of communication standards has also been strongly supported by the development of the major web-based B-to-B exchanges, as mentioned below.

The broad acceptance of the EANCOM standard in the retail industry for electronic data interchange (EDI) has drastically facilitated the electronic exchange of business documents and data. The adoption of VMI or CRP was often the outset for a regular use of EANCOM messages in many retailer-manufacturer partnerships. Today, every interviewed company reported to use the EDI standard of EANCOM that is based on the UN/EDIFACT standard. However, not every type of message is used at the same extend. For example, ORDERS (purchase order message) and INVRPT (Inventory report message) were among the most regularly used, while DESADV (Dispatch Advice) or PRICAT (Price/sales catalogue message)

were mostly run in pilot projects for the moment and SLSFCT (Sales Forecasting message) was very seldom used.

Many companies reported that their systems have for a long time been able to process most of the EANCOM messages but the capabilities of their business partners were often not developed enough to allow a sensible use of it. Yet, the latest IT-developments that were observed at many companies are clearly directed to further automate and integrate processes.

In Greece a lot of effort was invested in EDI during the 90's. Yet, the EDI adoption was limited mainly to the companies that have adopted continuous replenishment. The recent establishment of two web-based service providers, offering low-cost electronic ordering and invoicing services, has given a significant boost in this area. Currently, almost all the major retailers have started receiving invoices electronically while they start sending orders electronically to the suppliers. The number of suppliers that have already got involved in this process is above 200, and is expected to double in the next year.

Adoption experience:

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 use of web-based B-to-B exchanges is commonly considered as a highly efficient and low-cost possibility for data exchange and work flow management for any business. Yet, the consumer goods industry is one of the few cases where web-exchanges are actually used. A major reason for this success is the way consumer goods manufacturers and retailers have approached the use of these exchanges.

Unlike most other industries, consumer goods manufacturers and grocery retailers had already gained substantial experience from ECR pilot projects about the risk and benefits as well as about efficient ways to exchange data. The exchanges were developed with the clear goal in mind of technically supporting the collaborative ECR processes with information and data. Most of the applications found on the consumer goods web-exchanges are data exchange and work flow management tools. Auctioning tools are only one element which are used for spot market purchases but not for standard business processes. In contrast, most exchanges for other industries focused on auctioning tools to intensify negotiation practices; and doing so, undermined the trust necessary to start exchanging data.

The emergence of web-based information systems has allowed a revolutionary change in companies' IT strategy. After an initial phase of highly innovative yet little useful applications, today's web-based systems offer highly relevant solutions at minimum costs. Also, the business model of these web-based information systems has changed. While the initial solutions were owned and operated by independent entrepreneurs aiming at profit, today's B-to-B exchanges are owned by large consortia of manufacturers respectively retailers. Their goal is not to maximise profits but to use the service fees to finance further development, eventually keeping the fees low. Two independent, manufacturer-owned global B-to-B exchanges support manufacturers and their suppliers to exchange data and information automatically at low cost. Retailers have recently merged their activities into one major global B-to-B exchange to exchange data and information between retailers and manufacturers also automatically at low cost. The consolidation of IT development and the low cost for the interface for each participant has helped to attract participation from a major share of the companies in the industry, this helped by the increased standardisation of data interfaces and collaborative processes.

In addition to the global services, local solutions have emerged. The establishment of two web-based service providers in Greece supporting cheap and reliable electronic exchange of orders and invoices has supported the expansion of electronic communications between retailers and supplies, which had not been achieved before via EDI. In addition, these web-based service providers have recently added tools to run continuous replenishment (CRP)

which have been well received by small retailers and manufacturers who have now started getting involved in continuous replenishment, too. Eventually, this may enable a broad increase in the adoption of continuous replenishment.

Adoption experience:

The European Union's request to develop and adopt food tracing systems has widened the use of data standards and information systems.

As of January 1st 2005, a new regulation on food traceability, EC/178/2002, has been effective in the European Union. The regulation requests from any food operating business, at each echelon in the supply chain, to store information regarding the supplier as well as the buyer of a food product. This request for transparency in the food supply chain has forced companies to connect their IT systems, a move that has eventually created higher automation of data exchange. Also, it pushed the different parties in the food supply chain to better align their business processes. In order to comply with the new regulation, strategies suggested for ECR adoption had to be followed. To that end, a working group at the European level, coordinated and run by ECR D-A-CH, ECR France and ECR Spain identified the best practices developed in different countries and aligned the process and recommendations with these. In this way, 84 companies from Austria, France, Germany, Spain and Switzerland contributed to the edition of the ECR Europe Blue book "Using traceability in the supply chain to meet consumer expectations".

The regulation makes a distinction between two categories of data that need to be stored. The first is mandatory while the second is highly recommended. The first category of data includes the name and the address of supplier as well as the nature of the supplied products. Furthermore the name and the address of customer, the nature of products that were delivered to that customer, as well as the date of transaction / delivery are included in this first data category. The volume or quantity, the batch number, if any, as well as more detailed description of the product (pre-packed or bulk product, variety of fruit/vegetable, raw or processed product) pertain to the second category.

Before the introduction of the new EU regulation, batch numbers had already proved very helpful in informing consumers and preventing faulty products from reaching the shelves in the first place. However, information enabling the traceability of food products was usually not kept in the information systems. Therefore, each customer had to verify manually, whether products in his inventory were involved in a product recall or not. In order to optimise this process and to comply with the regulation, the incentive for businesses to make use of EDI and further enabling technologies of ECR, has increased. As EDI allows transmitting information such as the batch number of the products in a seamless manner, the compliance with traceability demands is facilitated. RFID technology is expected to further contribute to this capability.

5.5 ECR - Limitation

Despite the many opportunities offered by ECR, the successful ECR adopters have always remained realistic about what can be achieved through ECR and what cannot. The ECR adoption experiences show that ECR adoption rarely delivers immediate financial benefits and alone is not sufficient to deliver competitive advantage.

ECR adoption rarely delivers immediate financial benefits.

ECR adoption is a change in business practices requiring change in organisational structures and culture. Certainly, some immediate efficiency improvements are realistic, yet their translation into quick financial wins is rather the exception. Very few companies report seeing positive results of ECR adoption on their balance sheet within the first months. In fact, most companies report having faced additional costs caused by the extra efforts needed to run these ECR projects at first, before gaining efficiencies allowing to reduce costs.

The case of Gillette and Carrefour in Italy is one example that shows how benefits from ECR adoption like category growth may be realised immediately. However, at the same time, change management efforts initially consumed these benefits to the extent that profitability decreased over a period of time. Eventually, the two companies' persistence in adopting ECR has allowed them to achieve sustainable 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.

The finding that ECR alone does not give competitive advantage might come as a surprise and might be interpreted as demystifying ECR. In fact, this finding is important to help ECR adopters in setting realistic expectations, preventing them from putting high hopes into ECR adoption which ECR can not deliver. Only if realistic results are targeted which can be achieved through ECR, will organisations be able to maintain the momentum and the motivation needed to keep ECR going.

ECR encourages the adoption of good business practices in both demand and supply, but some companies worry about how to maintain competitive advantage if everyone adopts these practices. The ECR movement is driven by many competing companies and is open to any new company wanting to join. All ECR adopting companies are advised to use the same standard processes. Standard collaboration processes are targeted in order to ensure high industry efficiency and reduced complexity for all companies dealing with numerous suppliers or retailers.

In a very old-fashioned way, competitive advantage primarily comes from a company's unique business strategy. But, there is a second truth behind business success. A company's success depends strongly on the way it transfers its strategy into practice. This is where ECR helps to improve business success - in transferring strategies quicker and more efficiently into practice. In a time of fast changing trends and activities, this reactivity is very worthwhile.

"ECR adoption alone does not give competitive advantage but allows more efficient strategy implementation. Yet, non-ECR adoption results in competitive disadvantage. Our company has been dedicated to ECR for a long time - and we have learned a lot. It is important to set the right expectation on what one can achieve with ECR, and what not. Something we learned is rather simple, yet many people tend to be fooled by this: ECR adoption alone does not give competitive advantage. What ECR adoption allows you is more efficient strategy implementation. Practicing ECR with our major suppliers enables us to translate our strategies faster and better into reality, to the benefit of our shoppers, for whom we work every day, and for our suppliers. However, bear in mind that non-ECR adoption puts you in a situation where you struggle to put your strategies into practice, and where you lack process efficiency. Obviously, this results in competitive disadvantage. Briefly summarised: Successful companies must adopt ECR, yet there is more than ECR to be successful."
(Heinz Dziubinsky, Markant Group, Germany)

In the current business climate, 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. The higher the coordination of their activities, the more likely they are to be successful. If strategic activities are not aligned or coordinated in such a context, they risk losing efficiency as well as effectiveness and they increase the chances that the strategy eventually will fail.

The analysis of the cases and data on ECR showed a clear pattern that of all the companies which had a good business strategy, those companies that had a high ECR adoption level benefited most - simply because they could realise their strategies much faster.

In Switzerland, Rivella has always been an innovative and agile manufacturer of soft drinks and fruit juices. The company knows that the necessary drive for developing new products is a capability that they need to maintain themselves. Yet, ECR helps them to identify opportunities more systematically and to realize envisioned new product introductions more efficiently and effectively.

In 1999, it launched the new soft drink "Rivella Green", which became the most successful new product introduction in the Swiss soft drink market for the past twenty years. Rivella's commitment to train its staff in ECR alone has not rendered Rivella a more innovative company. However, the benefit that Rivella has drawn from ECR is to conduct its new product introductions with higher efficiency and effectiveness. Rivella gained much insight into shoppers purchasing behaviour and was able to optimise the market appearance and sales strategy of Rivella Green.

On a different occasion Rivella conducted a category management project with a Swiss retailer. Their joint analyses revealed that the retailer was lacking a price competitive mineral water in his category. Following this gap analysis, Rivella developed a mineral water enabling the retailer to complement his soft drinks and mineral water category.

5.6 ECR - Change Management

The adoption of ECR has been experienced by companies to be a complex, holistic process of changing business processes, organisational structures, employee behaviour, as well as IT systems. Such wide-ranging changes need proper management with sound, step-by-step planning, realistic budgets, dedicated resources, continuous progress control, top management dedication to address problems and a system to learn and disseminate knowledge within the company. Each element in itself is demanding, yet these elements are also interdependent.

The planning of a step-wise ECR adoption might need to consider, for example, the availability of potential collaboration partners, the possible areas of ECR to work on, the availability of reachable quick wins, the sequence needed to build up capabilities, just to name a few.

This plan should target to continuously achieve small successes, by selecting promising pilot projects and by setting realistic objectives. These objectives may be ambitious, yet they should be reachable. A long adoption process promises higher success if it is fuelled continuously with little successes. If the team in charge of the adoption never achieves the objectives no matter how hard they try, frustration emerges, harming the entire adoption process. Senior executives should consider spending time on setting the objectives right.

Companies report the importance of allocating dedicated resources and realistic budgets for ECR adoption success in order to allow employees to focus on the ECR adoption activities. Employees involved in ECR projects reported how important it was, not having to fight for money out of the normal budgets. Eventually, such allocation signals both internally into the own organisation and externally to (potential) business partners that the company is serious about ECR adoption.

Most companies have organised ECR adoption by running numerous collaboration projects each targeting specific objectives. As part of their project management approach, most companies have implemented different controlling systems to keep track of efforts spent in the projects and the results achieved. Measuring and tracking of business performance is standard business practice at most companies. However, as mentioned earlier, almost no

company measures and tracks ECR adoption levels. This makes an adoption status versus plan comparison difficult. Furthermore, with this lack of data it is difficult to analyse the impact of ECR adoption on business performance.

Many companies' top managers held themselves available to address arising problems directly with their collaboration partners' counterparts. Collaboration requires openness among and dependability of the parties involved. Especially when it comes to jointly talking about data, requiring i.e. collecting data, buying data, or exchanging data, most ECR projects have faced difficult situations as people on the operational level had different views on sharing investments, assets and intelligence. Bringing such fundamental, cultural problems to top management's attention helped to faster solve those, but also to boost cultural change.

The development of organisational capabilities has been mentioned frequently as one of the core tasks of ECR adoption. Systems are needed that allow companies to continuously learn in and from their pilot projects. While pilot projects give secluded terrain for trial-and-error learning, the new knowledge and developed capabilities need to be disseminated within the entire organisation. Follow-up projects need to be set up that develop these capabilities further.

ECR's underlying philosophy of early, integrated coordination requires that ECR adoption involves multiple stakeholders in a cross-functional approach. ECR adoption impacts most value creation processes, requiring buy-in from everyone contributing in these processes. Most companies realise that ECR adoption has to involve many people instead of delegating it to some ECR experts.

ECR adoption relies predominantly on people and organisations, technology is just a supporter. During the initial phase characterised by pilot projects, the collaboration partners aim at maximum effectiveness. Once the collaboration is set up, the roll out of ECR starts transforming ECR adoption from project level into day-to-day business processes.

At this stage the collaboration partner aims at maximum efficiency. Only now technology becomes a key issue to achieve the targeted efficiency levels. Successful ECR adopters take advantage of pilot projects to identify the real needs for automated data and information exchange and then seek for technological solutions. This approach helped them not only to speed up ECR adoption but also to reduce necessary investments.

Key to successful change management is that both partners are and remain realistic about the opportunities of and required efforts that must be put into the collaboration. The establishment of desired win-win relationships is only possible if a win can actually be achieved. If a collaboration partner has unrealistic expectations, the relationship will never be perceived as having delivered a win. Companies who have embarked on ECR adoption have to be realistic about their commitment to change, have to acknowledge the actual cost of adopting and advancing the collaboration, and finally, ensure information sharing in a simple and open way.

Companies generally agree that there may be an end to ECR adoption, yet the adopted collaborative processes need to be constantly developed further. The interdependence brought by ECR adoption puts collaborating companies into a position where they have to jointly drive these advancements and constantly have to pursue meaningful change.

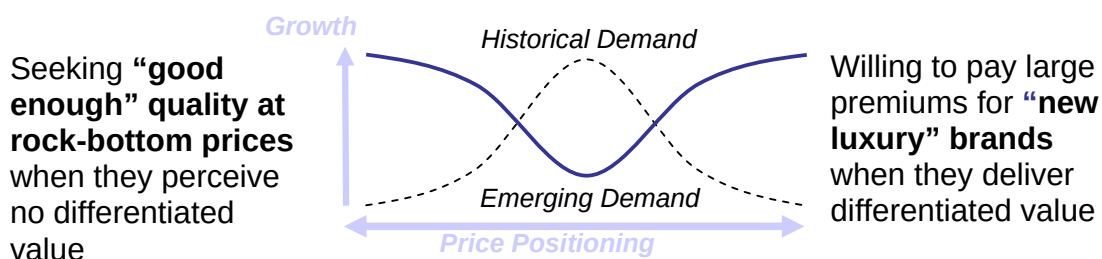
6. Recommendations

In this chapter we will present our recommendations for companies wishing to derive further benefits from ECR and for organisations who wish to promote the adoption of ECR on a wider basis.

6.1 Get the Fundamentals Right

ECR is not a magic solution to solve all the woes of a company or an industry. ECR focuses on the cooperative working relationships between manufacturers and retailers, because in the past these relationships have stood in the way of growth and have led to excess cost. However, if a company does not have a well designed strategy and innovative, value-laden products then the impact of ECR initiatives will not be as great.

Value can of course be provided by product development and innovation, particularly in the premium end of the market, but can also be provided by highly efficient operations leading to low cost provision of products which are good enough. Indeed, IBM research has identified that the greatest growth is currently in the extreme ends of the spectrum – either focus on low cost or innovation or premium strategy. Products caught in the middle are suffering from low growth and low profit. We refer to this as moving from the traditional bell curve to the “well” curve as illustrated in the figure below.



Source: IBM Business Consulting Services

If a low cost strategy is being adopted then the emphasis should be on eliminating errors, reducing handling and ensuring efficient flow of information and products. If a innovation strategy focusing on premium is being adopted, the emphasis should be on understanding the shopper and creating shopper value through tailored solutions such promotional activities or new product launches which require more collaboration in their planning and execution. This has to be accompanied by an information system which provides an early warning of when reality differs from the plan and a supply chain which can react to these changes.

Once the strategy is defined then the operations should be aligned to support the value or premium segmentation. All of the ECR improvements can then be deployed to ensure that the strategy is well-adopted up to the retail shelf.

ECR focus on sharing process information in the supply chain will allow companies to improve efficiency and eliminate cost in support of a value strategy or allow the supply chain to sense and respond in support of a premium strategy. The result will be lower out-of-stocks, higher availabilities and more successful new product introductions or promotions, hence more satisfied shoppers and consumers.

6.2 The ECR Implementation Pyramid – a Tool for the Individual Company

Step 1: Evaluate

Ascertain how far your company has already progressed in adopting ECR. Every company has adopted some level of ECR working practices, even if they do not use the term Efficient Consumer Response, but how much further could these be taken compared to accepted definitions of best practice?



Tools for evaluating ECR capabilities are readily available. The Global Scorecard web site, www.globalscorecard.net, contains three such tools:

- The entry level scorecard
- The intermediate level scorecard
- The full global scorecard

The entry level scorecard is suitable as a measure for companies who are just starting to discover ECR. It is quick and easy to use both as an internal assessment tool in a company and as a means of measuring the performance of a working relationship between trading partners.

The intermediate scorecard is for those who want to take their analysis one stage further. It introduces more ECR concepts and provides one more level of detail in the adoption scale. It too has been extensively used internally and as a collaborative tool.

The full global ECR scorecard is for those companies who wish to carry out a detailed analysis of their capabilities across each element of ECR. It is accompanied by an extensive database of scorecards entered by companies either as a self-assessment or as sets of scores verified by a third party. It is therefore highly suited for benchmarking and planning future levels of attainment.

At the same time, we highly recommend that the company measures a set of Key Performance Indicators associated with each ECR improvement area so that it can track the impact that these improvements are making to their business. It is vital that the company achieves a positive cycle of action and measurable result so as to sustain momentum during the adoption and to overcome the many difficulties which will be encountered.

Step 2: Plan

Plan to incorporate proven ECR improvement concepts into your business strategy.

Having established where you are you then need to set realistic but challenging goals for where you want to be. Be realistic. You cannot achieve a full adoption in every area of ECR in only one year! Indeed it has taken the leading companies many years to reach the levels that they have done. The plan should include the resources necessary to achieve the desired adoption level.

Make sure that every element of your plan can be tied to a definite benefit for the consumer, either through greater value, reduced cost or improved service. Maintain a focus on creating shopper value through:

- Shopper based joint trading plans
- Shopper based value chain
- Consumer-driven innovation

Step 3: Cultural Intervention

It is necessary to make cultural interventions across three primary success drivers. If managed proactively, these drivers can yield positive and sustainable changes in the business. If not, each one can become a barrier to change and will thwart the ECR initiative. The three drivers are:

1. Willingness to innovate and change
2. Creation of shopper value
3. Collaborative understanding of partner's business and sharing of information

Step 4: Align Goals and Objectives

It is important that goals and objectives are aligned both within your different business functions and between trading partners. If these are not aligned, conflicts can rapidly arise leading to a stalling of the adoption programme.

Whilst marketing, sales, trade marketing, manufacturing, procurement and logistics will each have their own set of objectives within a manufacturing business, these should not conflict with one another. Similarly, the goals of marketing, buying, merchandising, store operations and supply chain should be consistent within a retailing business.

When it comes to aligning objectives across trading partners, businesses have to concentrate on identifying those factors which are in the mutual interest of both parties. Ultimately it will be in both parties interest if they can focus on meeting shopper needs and thereby growing the business. Equally it is in both parties interest to reduce the combined costs of both businesses. However, there will be occasions when the need for the retailer to obtain the best deal from the supplier may conflict with the supplier's need to maximise revenue. To overcome this conflict both parties have to develop a sufficient level of trust to allow them to continue to work together constructively. This trust can only be earned from experience and cannot be assumed.

Step 5: Align Measures and Incentives

The final level of the pyramid addresses individual and group measures and incentives. People's measures and incentives are designed to encourage certain behaviours. It is very important that the behaviours that incentives encourage are in line with the ECR programme that the company is trying to adopt. All too often, incentives are not updated to reflect the changing company goals and it is no surprise then that these kinds of initiatives often stall.

6.3 Recommendations for Industry Programmes

As well as adoptions at an individual company level, we should also address industry initiatives such as ECR Europe and the ECR national bodies. These organisations exist to promote the adoption of ECR in their markets in the belief that this will lead to an overall improvement in the industry and the health of the companies that participate.

Whilst these organisations cannot set rewards and incentives for companies, they can still inspire companies to act by publicising the benefits of ECR through case studies and education. Many ECR bodies have been engaged in extensive work programmes to do just

this. For example, ECR Europe has published a library of Best Practice guides, which are essential reading for any company wishing to adopt ECR ways of working.

In order for ECR Europe to accelerate adoption, we recommend that the adoption levels of ECR and the benefits derived are tracked more closely and reported regularly. An industry transforming programme such as Efficient Consumer Response takes years to adopt and requires constant work and attention. Participants may lose motivation without positive reinforcement of the gains and progress already made. Regular measurement and reporting of the benefits helps to convince participants that the effort is all worthwhile. This will help ECR organisations to determine which of their programmes are having an effect and which are not.

As we have already stated, there is a large difference between the most advanced ECR adopters and those who follow. Even the advanced adopters have not derived as much benefit as they should have because of the lack of critical mass. It is very difficult for ECR bodies to encourage the second and third tier companies to adopt ECR beyond the promotional and educational activities they are already carrying out. Retailers have a key role to play in encouraging ECR adoption among their broader supply base. Many choose to do this on an individual basis in the belief that it will create competitive advantage, but if they can find common areas of interest it would be more efficient to carry out these activities through local and regional ECR bodies.

As an example, we found an ECR organisation outside Europe which has been successful in gaining widespread retailer participation by focusing on the common interest area of poor service levels. They have agreed to measure service levels, carry out root cause analysis and compare results in order to identify common problem areas in the industry and then to work in industry level solutions where appropriate. Is there a reason we can not name that organisation?

The Global Commerce Initiative carries out an annual survey of compliance to international standards using some elements of the Global Scorecard. ECR Europe should also encourage its members to participate in an annual survey tracking the adoption of all ECR best practices as do other region or organisation. This will help ECR organisations and companies to determine which of their programmes are having an effect and which are not.

- For example, for the past ten years ECR Australasia has periodically conducted an ECR tracking survey within its region. It has used globalscorecard.net to collect and analyse the data, with the result that it now has a rich bank of performance data showing the improvement achieved in different areas of ECR over the last ten years. This information has been used by the ECRA Board to highlight areas for improvement and to focus the attention of their working groups. They are planning their fourth tracking survey in 2006.
- ECR Denmark has launched an extensive tracking analysis to be carried out with the support of the Copenhagen Business School and IBM. They aim to cover 70% of the grocery market by value. This will make it the most extensive ECR survey ever carried out within any market and will yield a fascinating insight into the opportunities for improvement within a homogenous market. It will create the possibility of identifying more clearly the relationships between ECR capability scores, Adoption Measures and KPI values free from the differences between countries which normally hinder this kind of analysis.

7. Conclusions

When launching this research we tried to address a few questions.

1.) How far has the industry progressed in adopting ECR in Europe?

Across all countries and categories, top-tier ECR adopters exist. On average, overall ECR has reached more than half way (58%). Demand side concepts show the highest adoption level (62%), followed by ECR enablers (58%), and the supply side concepts (54%). The ECR integrator concepts' adoption level is encouraging with 44%.

Yet, major differences are found in each country and category. Also, market conditions and structures cause major differences among the ECR adoption in the different European countries.

2.) What benefits have been achieved?

Overall, companies have consistently experienced that inventory levels have decreased, service levels have increased, on-time delivery has improved, and lead-time have been reduced. The use of data synchronisation is improving order and invoice accuracy. The broad adoption of category management has induced improvements in assortments, pricing, promotions, shelf-layout, new product introductions, and new offerings. Shoppers reward the improvements made by ECR adopting retailers with higher store loyalty. ECR adopting suppliers have strengthened their position against low-value substitutes.

From a financial point of view we estimate that of the originally predicted 6.9% cost saving, 3.6% has been achieved leaving another 3.3% still to be delivered. On top of that we estimate that a full adoption of ECR could yield an additional 5% of sales.

3.) What benefits still remain to be derived from ECR?

Although much has been achieved by some companies over the last 10 years to improve consumer value and to reduce costs, we have found that adoption levels of ECR best practices vary greatly within European markets as well as between them. Leading ECR adopters have moved well beyond pilot trials and have adopted ECR as an everyday way of doing business. Others, however, are still suspicious of the collaborative way of working that ECR demands and are stuck in traditional trading based relationships. The results can be seen in the out-of-stock levels, inventory levels and sluggish growth performance of much of the industry. Many companies can still benefit further from ECR.

4.) What strategies have successful companies applied in adopting ECR?

The transition from adversarial to collaborative retailer-supplier relationships is a delicate management task. Traditional processes and structures foster separation between companies, employee's traditional behaviour and corporate incentive systems are directed to benefit on the expenses of their business partners. Successful ECR adopters have developed new processes and structures in secluded settings, and rolled out their successful pilot projects only once they had build up sufficient capabilities and managed the new processes. They gained support from their employees by showing reliable top-management commitment and by rewarding employees for collaborative behaviour.

5.) How can the adoption of ECR in the future be accelerated?

Most companies should consider continuously controlling their ECR adoption progress. Companies could substantially improve the efficiency of ECR adoption by turning their ECR vision into measurable goals at defined milestones. Senior executives should remain realistic about the many opportunities offered by ECR. Too ambitious plans turn into frustration and harm the vulnerable trust among retailers and manufacturers. The participation in national ECR organisations offers various opportunities to find the "right" business partners to start new ECR projects and to exchange experiences. Companies wishing to accelerate their ECR adoption may wish to consider using the "ECR Implementation Pyramid" mentioned in Section 6.2.

6.) How can ECR bodies accelerate ECR adoption within their areas?

ECR bodies should continue their good work of sponsoring pilot initiatives and providing publicity to the results, and encouraging the sharing of best practices. They should continue, and if possible develop further, their educational initiatives. They should also encourage the regular tracking of ECR adoption levels and monitoring the benefits derived through regular measurement of industry key performance indicators.

Appendix A Contribution to the Case for ECR Study

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APPENDIX B

ECR definition and description of the Global Scorecard also called ECR Full Scorecard.

B.1. ECR – A Definition

ECR has been summed up as “Working together to fulfil consumers’ wishes better, faster and at less cost”. This simple phrase contains a number of important elements in the definition:

Working together: All ECR concepts involve some form of collaboration between retailers and their suppliers along the vertical supply chain. This represents a fundamental change towards business relationships which are more open, more collaborative, with common business objectives. ECR seeks to re-focus energies on the common objective of growing the joint business and eliminating wasteful and costly business practices.

Consumers’ wishes: In ECR, everything retailers and manufacturers do should be focused on benefiting the consumer. If any given initiative does not have a tangible benefit for the consumer either through cheaper products, better service or product offerings more closely tailored to the consumer’s needs, then it does not belong within ECR. Putting the consumer at the centre of decision making with regard to choice of initiative can help trading partners to prioritize.

Better, faster: This covers all the operational factors covered by ECR. The outcome should allow consumer wishes to be fulfilled better and faster than if the trading partners had not decided to work together on adopting ECR. This could be in terms of better product offerings, easier to understand shelf layout and displays, promotions which better meet the needs of the consumer and the companies, all achieved in a shorter time.

Less cost: By working collaboratively, the trading partners should be able to identify opportunities to lower the total cost in the value chain, not just move cost from one party to another. Often the cost savings come from improved logistics, increased visibility in the supply chain and reduced wastage, but they can also come from reducing money wasted in failed promotions and product launches.

B.2. ECR Adoption – the Use of the Global Scorecard

The concept of Efficient Consumer Response had first been mooted in the USA during the early 1990s, where the industry faced particular issues of highly wasteful business practices and the entry into the market of new business channels, which were seemingly able to operate more efficiently.

By 1994, when ECR was being considered in Europe it was defined as comprising three broad themes:

- Category Management
- Product Replenishment
- Enabling Technologies

Within each of these themes, there were a number of specific initiatives identified for companies to adopt as part of their ECR programme:

- Category Management
 - o Establish infrastructure
 - o Optimize introductions
 - o Optimize assortments
 - o Optimize promotions
- Product Replenishment
 - o Integrated suppliers

- o Synchronized production
- o Continuous replenishment
- o Automated store ordering
- o Reliable operations
- o Cross docking
- Enabling Technologies
 - o Electronic data interchange (EDI)
 - o Electronic funds transfer
 - o Item coding and database maintenance
 - o Activity based costing

In 1996 ECR Europe published the ECR Europe Scorecard, which allowed companies to measure the progress they were making in each of these initiatives using a five point scale, where the scores were given as follows:

- 0 = nothing planned
- 1 = plans agreed, but have not yet started adoption
- 2 = pilot tests being conducted
- 3 = roll out of adoption started
- 4 = fully adopted

Over the 10 years of ECR Europe, the definition of ECR has been refined and updated to take account of developments in the industry. New concepts have been introduced, which were not part of the original scope of ECR, such as:

- Shopper value creation
- Transport optimization
- Efficient unit loads
- Reliable stock loss management
- Data synchronization
- Electronic product codes (RFID tags)
- Other electronic message standards beyond EDI

In 1999 the Global Commerce Initiative was formed as an organization to identify the need for, and promote the adoption of, global standards in the grocery industry. Its Executive Board comprised many of the same companies who had been involved with ECR initiatives around the world. The board quickly decided that they wanted one global standard method for measuring standards adoption and so the GCI Global Scorecard was launched. This was, in effect, a development of the ECR Europe Full Scorecard. A web site was launched at www.globalscorecard.net where companies could record their ECR scores and run benchmark reports. www.globalscorecard.net

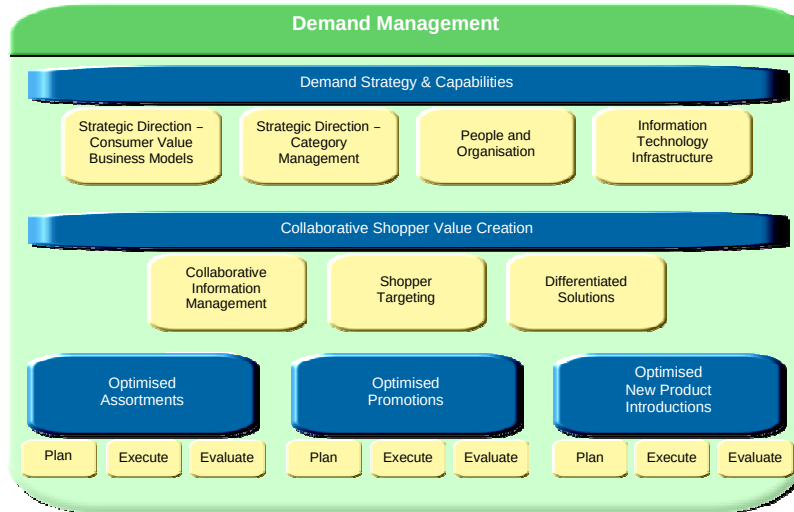
In April 2004, the scorecard was updated to reflect the latest developments in the industry and the current ECR template was adopted:



Throughout all this time, the overall objectives and principles of ECR have remained unchanged, but the detailed definition of the ways of meeting those objectives has evolved. We do not expect that evolution to stop here. The industry is constantly trying to find new ways to provide value for consumers and many of these will require collaboration between trading partners to be adopted.

We fully expect the ECR template to evolve further, as new developments mature and become accepted as best practice.

Demand Side



Demand Strategy & Capabilities

This involves putting in place the fundamentals to allow a company actively to pursue ECR principles in the demand area. It requires the establishment of the Strategic Direction to adopt Consumer Value Business Models where creating consumer value both within the company and collaboratively with trading partners is essential, and to adopt Category Management working practices. This requires the establishment of appropriate People and Organization, to be able to deliver ECR demand side improvements, and it requires the appropriate Information Technology Infrastructure to gather and process the necessary information to support decision making in the ECR demand areas. Companies need to establish all of these items within their own businesses, but they also need to establish the collaborative information sharing and working processes together with their trading partners.

Cost reduction: Establishing Demand Strategy and Capabilities will actually increase costs rather than reduce them. However, it is a fundamental requirement for successful adoption of other ECR demand improvement areas which will themselves reduce cost and lead to more growth.

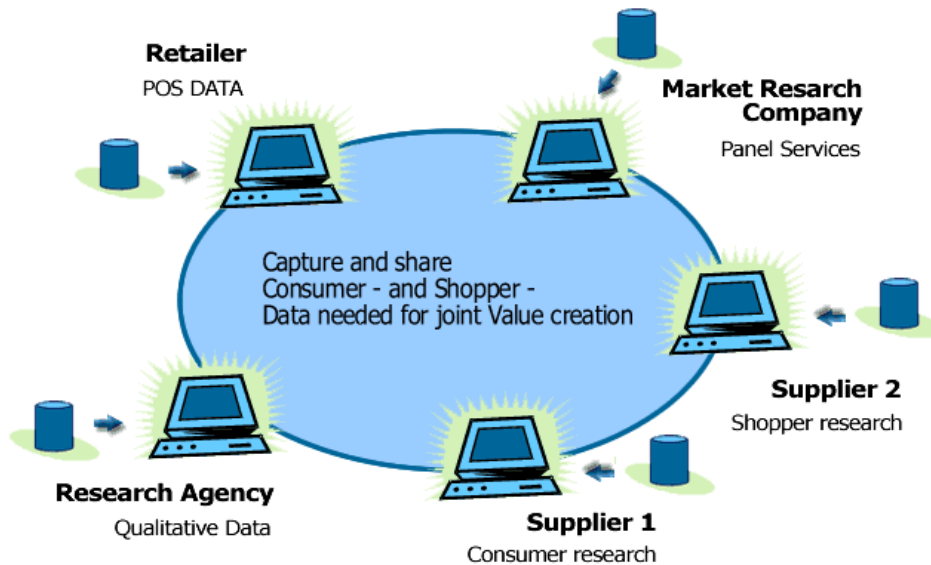
Inventory reduction: No impact.

Growth: No impact, but it is a key enabler to other ECR demand improvement areas which do impact growth.

Collaborative Shopper Value Creation

This concept involves retailers and manufacturers collaborative to provide differentiated solutions for shoppers in store. Although the products themselves are obviously an important part of the solution, this goes beyond simply putting products on shelf. It combines the product range and display with information for the shopper and services which the shopper may find useful to produce an in-store solution which is differentiated and tailored for the target shoppers.

In order to develop a differentiated solution, it is first necessary to identify the target shoppers so that the solution can be developed to meet their specific requirements. This assumes that the trading partners are able to identify who the current shoppers are and to determine whether an adjustment is required in order to meet core business strategy. All this requires underlying collaborative information management to be able to gather information on the shoppers and determine their needs so that appropriate solutions can be developed and tested. This information comes from many sources, both internal and external, and needs to be processed and shared so that the required insights can be derived.



Cost reduction: Some cost increase due to the time and effort to develop the solution and due to adoption costs. However, the growth generated provides the necessary return on investment.

Inventory Reduction: No impact

Growth: Very high impact. By developing appropriate solutions which really meet the needs of target shoppers, high growth can be achieved. When companies get this right, the results can be spectacular with large increases in sales within the category and knock on effects through increased store traffic generation. A number of examples have been presented at ECR Europe conferences over the years. Some of the most memorable ones include Mars and Sonae in Portugal who developed a “responsible pet care” solution and ASDA with L’Oreal in the UK who developed a new beauty care solution which had a dramatic impact on sales and total store traffic.

Optimised Assortments

This is one of the tactical areas of category management. The assortment needs to be planned, executed and evaluated on a regular basis. It requires an understanding of the role that the category plays within the store, which leads to decisions about the range depth and breadth which is appropriate and ultimately to improved shelf layout.

Cost reduction: Small opportunity due to range simplification

Inventory reduction: Opportunity to reduce inventory both for the retailer and the manufacturer by eliminating non-performing SKUs and increasing inventory turns for the category.

Growth: Opportunity to grow the category. Many case studies presented at ECR Europe conferences over the past ten years have shown that sales increases of 30% or more

can be achieved through better management of assortments. Many assortments are over complex and shoppers find it difficult to make purchase decisions or find the product they are looking for. Introducing shopper-based logic for laying out a category helps the shopper to make purchase decisions and they frequently end up purchasing more. In addition, a well managed assortment leads to a reduction in the out-of-stock rate and corresponding in reduction of lost sales.

Optimised Promotions

The second tactical area of category management concerns optimizing the management of promotions. When planned and executed well, promotions can yield substantial sales uplifts and generate extra profit for both the manufacturer and the retailer. Too often, however, money is wasted on promotions which either don't yield the expected results or simply encourage opportunistic shoppers with no lasting impact on sales. It is important to determine the objectives for the promotion and then refine the promotional offer in a way which best meets those objectives. It is vital then to evaluate how well the promotion met those objectives so that the promotional offers can be refined in the future.

Cost reduction: Substantial opportunities to reduce costs by creating a more effective use of manufacturer's promotional funds. Much promotional expenditure is currently wasted because the promotion is not evaluated adequately against its objectives, so the same mistakes keep being repeated.

Inventory reduction: Some opportunity to reduce inventory by improving promotional forecast accuracy and thereby reducing the inventory buffer needed to hedge against forecast errors.

Growth: Growth opportunity from defining promotion objectives more clearly and developing promotional concepts which meet those objectives. Often the objective will be in terms of growth.

Optimised New Product Introductions

Innovation in new product development is vital to nearly all categories in the grocery industry. While underlying growth in the grocery industry remains sluggish in Europe, we can see that in categories with high levels of innovation, growth can far outstrip the average. Unfortunately, many new products and product extensions are not truly innovative and lack differentiation with the result that a very high proportion of products fail to survive beyond a year. By working collaboratively in product launch planning and execution, and evaluating new products against category and business objectives, companies can reduce the risk of product failure.

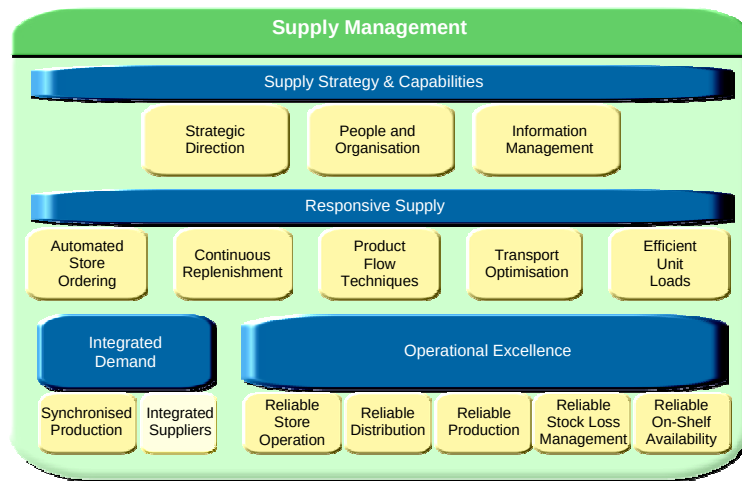
Cost reduction: Cost reduction opportunities are substantial. The cost of product development and launch, with accompanying advertising and promotion, is very high. Just improving the product launch success rate by a few percentage points can have a great impact on costs.

Inventory reduction: There is a small positive impact on inventory, reducing the risk of obsolescence from failed new products.

Growth: Growth can be substantial for those products which are truly innovative, are differentiated and met a genuine consumer need. By working together and pooling knowledge, manufacturers and retailers can increase the chances of a new product being successful and thereby have a positive impact on overall growth.

Supply Side

The supply management improvement concepts are aimed at producing a highly synchronized supply chain, with high levels of reliability with consequent reduction in inventory. This can only be achieved with high levels of visibility of both inventory and demand throughout the supply chain and the ability to react to unexpected changes in demand when they do occur. The concepts covered by ECR supply are shown below:



Supply Strategy & Capabilities

This involves establishing the right strategic direction, people and organization and information management systems to allow the supply chain to be operated in a responsive and synchronized manner.

Cost reduction: If starting from scratch, of course it would require substantial investment to achieve necessary capability. But due to the fact that most companies have a well developed supply chain infrastructure in place, we do not see any substantial cost impact from this concept. Each investment in supply chain information systems has to justify itself in terms of the return generated.

Inventory reduction: None. It is an enabler for other supply concepts which do impact inventory.

Growth: None.

Responsive Supply

Responsive supply covers a set of techniques to improve the responsiveness of the supply chain to changes in demand by providing increased demand visibility and allowing corrective actions to be taken. It involved eliminating inventories at every stage in the supply chain.

Automated store ordering requires accurate store inventory management systems with replenishment orders being driven off actual sales plus demand plans for planned demand spikes, such as promotions.

Continuous replenishment involves replenishing retailer distribution centres in line with off-take and planned demand spikes.

Product flow techniques involve eliminating DC inventory and converting to flow-through operations or cross-dock operations wherever practical and wherever it makes sense from a total supply chain perspective. This reduced both inventory and distribution centre operating costs.

Transport optimization involves better planning of the deployment of transport fleets so as to achieve a greater vehicle fill and a reduction in the number of empty journeys. An example of this is using the same truck to make deliveries from a retailer distribution centre to a store and then to pick up products from a nearby factory and take them back to the retailer DC. This requires careful planning from both, the retailer and the manufacturer as well as a fair means of sharing the distributions costs.

Efficient Unit Loads involved the use of appropriate logistics units throughout the supply chain so as to minimize the number of handling steps, reduce overall handling costs, and minimize inventories. To be effective, standardized logistics units are required so that all members of the supply chain can optimize their handling equipment. An early example of this was the introduction of pallets and pallet pooling, but this has developed into the use of shelf-ready packaging and merchandisable units.

Cost reduction: Cost reduction opportunities can be substantial by eliminating unnecessary handling steps and increasing asset utilization (such as trucks). In all cases it requires trading partners to take a view of the total costs in the supply chain and ensuring that all improvements do lead to an overall cost reduction.

Inventory reduction: Very large opportunity to reduce the inventory in retailers businesses. By more effective store replenishment and retailer DC replenishment, substantial inventory reductions can be achieved in the retailer whilst maintaining or even improving product availability.

Growth: There is some growth opportunity due to reducing the out-of-stock levels on shelf in the retailer store.

Integrated Demand Driven Supply

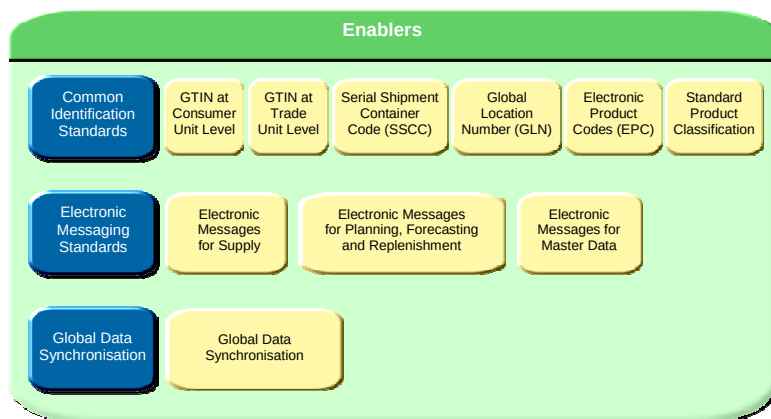
This concept involves manufacturers having greater visibility of actual, real time demand levels down the supply chain and being able to flex their production systems and in-bound supply accordingly. Whilst improvements in demand forecasting help to achieve more stability in the production environment, demand forecasting can never be perfect. It is therefore important that the manufacturers and their suppliers can react to differences between planned demand and actual demand when they occur.

Cost reduction: With these techniques, manufacturers, and raw material and packaging suppliers have the opportunity to reduce costs in their supply chain. These costs reductions come from the ability to reduce inventory buffers and improve asset utilization and reduce the amount of re-planning and expensive, emergency reaction.

Inventory reduction: With synchronized production and better integrated suppliers both the manufacturers and their suppliers can achieve substantial reductions in finished goods inventory, raw materials inventory and work-in-progress.

Growth: Small impact. There could be a small impact in growth improving product availability all the way down the supply chain and thereby reducing the level of out-of-stocks on the retail shelf due to non-availability of product at the manufacturer.

Enablers



The enablers comprise a number of enabling technologies which are designed to allow the smooth transfer of information throughout the value chain. On the whole, they do not by themselves lead to any great cost savings, inventory reductions or growth, but act as an enabler to the Demand and Supply concepts which do yield all three. The coverage of the Enablers is shown below:

Common Identification Standards

Common identifications standards are required for tracking products through out the supply chain and for communicating information about those products between trading partners. Bar codes have long been used in the grocery industry and now these are being standardized worldwide using the Global Trade Item Number (GTIN) both for consumer units and for cases and inners.

The Serial Shipment Container Code (SSCC) is used for tracking logistics units, such as pallets, throughout the supply chain, and the Global Location Number (GLN) is used to identify specific locations where products are shipped to or dispatched from. It is an important identifier in electronic messages such as purchase orders goods receipt confirmation.

The Electronic Product Code (or Radio Frequency Identification tag) is an important new development in the consumer goods industry, which allows items to be identified through radio waves rather than through line-of-sight applications like bar codes. Unlike a bar code, the EPC uniquely identifies each individual item by combining the GTIN with a serial identification number. The business case for EPC is still under scrutiny at the time of writing and we have not factored this into the benefits calculation in this report.

Standard Product Classification provides a standard way for products to be grouped into categories and sub-categories. It provides a standard for product grouping within market research and analysis shared between companies. This supports “apples to apples” communication and should reduce disputed claims due to difference in definition of categories.

No cost reduction, inventory reduction or growth has been claimed for these enablers. However, the benefits claimed for Demand and Supply assume that the necessary enablers have been put in place and that the benefit claimed is net of adoption costs.

Electronic Message Standards

Similar to product identification, the use of electronic message standards is a fundamental requirement to enable businesses to communicate efficiently across a range of topics. Electronic messages for supply cover all the message types required to facilitate the smooth flow of products envisaged under the supply concept “Responsive Supply”. These include, purchase order, dispatch advice note, delivery confirmation.

Electronic messages for planning, forecasting and replenishment cover communication of demand plans, forecasts as well as information on recent sales and inventory levels. These are used in processes such as vendor-managed inventory and continuous replenishment.

Electronic messages for master data cover the communication of product specifications and pricing. These message standards are needed so that master data can be aligned throughout the supply chain.

Again, no benefits have been assumed from electronic messages, but they do of course enable the supply processes as well as some of the demand planning processes. Benefits from electronic messages are e.g. fewer errors, less paperwork and with that cost savings.

Global Data Synchronisation

Global Data Synchronization (GDS) is the term used to describe the exchange of item master data between trading partners via data pools, which use the GS1 official communications

standards. Under this process, master data is created once, by its originator, and then is shared with trading partners who subscribe to the GDS Network. A frequent cause of errors in the buying/selling/replenishment process is due to mismatches in the databases of trading partners regarding product data, price information and company data. This can result in orders not being placed, or orders being placed but not accepted or invoices failing to be processed. All of these errors cause delays, are expensive to rectify and may lead to out-of-stock on the retail shelf.

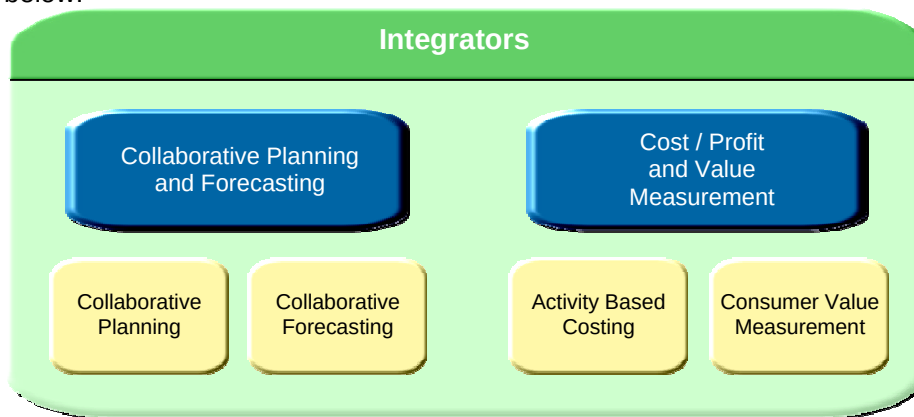
Cost reduction: By following the GDS protocols, companies can avoid the need to enter the same master data multiple times and can automate the transmission of this data. This not only saves manual data processing costs but avoids the need for corrective actions to overcome errors due to data mismatches.

Inventory reduction: minimal

Growth: Many occurrences of products being out of stock on the retail shelf can be traced to errors in the master data in companies' databases. New products may not be set up correctly, with the result that retail store replenishment orders do not get placed. As a result, GDS can help to improve out-of-stock levels and thereby increase sales.

Integrators

The last section of ECR improvement concepts to be considered is the Integrators shown below.



Collaborative Planning & Forecasting

This covers the process of establishing common demand plans and common forecasts between trading partners. This results in more accurate demand plans and forecasts. The detailed planning of individual promotions and the benefits derived from these have been captured under "Optimized Promotions" rather than in this section.

Cost reduction: There is an opportunity to reduce some operational costs due to increases in forecast accuracy.

Inventory reduction: Safety stock can be reduced as a result of improvements in forecast accuracy. However, the impact is no as great as a reduction in replenishment cycle times would be.

Growth: Little direct benefit other than in the ultimate impact of reducing out-of-stocks.

Cost/Profit and Value Measurement

This concept is an enabler to better decision making between trading partners with regards to eliminating costs from the overall supply chain and for deciding the overall effectiveness of

different consumer and shopper value solutions, taking into account the adoption costs the benefits derived by the consumer and the benefits derived by the companies.

By itself this concept does not lead to cost and inventory reductions and growth, but is an enabler of better information underlying other supply and demand improvements.

The Key Performance Indicators

The Global Scorecard KPI

KPI 1: Progress vs. Commercial Share Target

This measurement is used by companies to compare the performance of different business units and is not a useful measure of ECR adoption at an industry level. We have therefore decided not to use it in this study.

KPI 2: Service Level / Unit Fill Rate

In this context, service level is a performance indicator that measures the cases delivered as a percentage of the total number of cases ordered. Over deliveries and back orders are not included in this measure.

KPI 3: On-Time Delivery

On-time delivery measures the percentage of orders, which are delivered within the agreed period.

KPI 4: Raw Materials Inventory Cover

This KPI asks suppliers to estimate their raw materials inventory cover, measured in days of usage.

KPI 5: Supplier's Finished Goods Inventory Cover

This KPI asks suppliers to estimate their finished goods cover measured in days of sales.

KPI 6: Retail Distribution Centre Inventory Cover

This KPI looks at retailers' inventory cover in their distribution centres, measured in days of supply.

KPI 7: Retail Store Inventory Cover

The inventory cover in retailers' stores is another major supply chain performance indicator, and is measured in days of sales.

KPI 8: On-Shelf / Point-of-Sale Out-of-Stocks

This measure considers the average percentage of items which are out of stock on the retail shelf at any one time.

KPI 9: Order to Deliver Lead time

This KPI measures the supply chain's responsiveness to retail orders. Shorter lead times are beneficiary to the quality of the goods and allow reduced inventory covers.

KPI 10: Distribution Costs (% of sales value)

To make the distribution costs comparable, they are given as a percentage of the sales value of the goods (making the analysis vulnerable to pricing issues). Distribution costs depend strongly on the geography, the population density and the industry/retails structure in a country.

KPI 12: Master Data Accuracy

This KPI measures the alignment of neutral master data between trading partners.

KPI 13: Invoice Accuracy

This performance indicator looks on invoice accuracy in a broader sense than KPI 12. It measures the alignment of all data given on an invoice.

KPI 14: Perfect Order Rate

Perfect order rate measures the percentage of orders that are processed automatically, delivered correctly in quantity, on time and free of damage, and invoiced correctly.

Exhibit: Key performance indicator levels and adoption measures in Western Europe

Data extracted from www.globalscorecard.net - "Europe" from 01/01/2004 to 24/11/2005

Key Performance Indicators		Unit of measure	Number of data points	20th centile	Average	80th centile
KPI02	Service Level / Unit Fill Rate	%	225	93.0	95.1	99.1
KPI03	On-Time Delivery	%	203	83.2	90.8	98.8
KPI04	Raw Materials Inventory Cover	days	69	11.0	27.8	33.7
KPI05	Manufacturer / Supplier's Finished Goods Inventory Cover	days	140	22.0	34.5	45.0
KPI06	Retail Distribution Centre Inventory Cover* * Dry Grocery Only	days	10		21.9	
KPI07	Retail Store Inventory Cover*	days	8		37.9	
KPI08	On-Shelf / Point-of-Sale Out-of-Stocks	%	119	2.4	9.1	9.3
KPI09	Lead Time	hours	219	48.0	67.9	96.0
KPI10	Distribution Costs (% of sales value)	%	171	2.6	5.8	6.3
KPI13	Invoice Accuracy	%	193	84.4	88.5	97.2
KPI14	Perfect Order Rate	%	79	73.0	83.0	95.0

B.3. Debate on the Global Scorecard

Many companies participating to ECR activities locally and internationally successfully use the Global Scorecard. Yet, as mentioned in chapter 5 the number of companies undertaking this exercise is still limited. As indicated some justified it by a lack of time, too much complexity or the existence of internal proprietary scorecard exercise.

In fact, as the researchers who run the analysis for this report, our view is that the Global Scorecard is not entirely precise in many aspects. It includes many compromises between rigorous analysis and practical, flexible applicability.

Theoretically, any scale has to meet two basic criteria to produce meaningful results: reliability and validity, which in itself has several aspects.

Reliability of a scale ensures that any repetition of a measurement under the same conditions produces the same result. The results of the scorecard for a specific trade relationship must consistently show the same ECR adoption level, no matter by whom it is filled out, when it is filled out, how often it is filled out, or where it is filled out.

Validity of a scale ensures that the scale actually measures what it intends to measure. On one hand, the scorecard has to make sure that all aspects of ECR are covered by specific questions. On the other hand, each question needs to address precisely one specific ECR concept.

The complex nature of ECR makes it difficult to define a fully reliable and fully valid measurement scale. This leads to patterns of problems of the Global Scorecard that were mentioned by critics from business practice.

In general, the scorecard does not specify the unit of analysis. Hence, some companies answer the scorecard on a corporate level, others on a national level, some for the relationship with a specific trading partner, others focus on a category, some fill it out together with their trade partner, others individually.

A multinational retailer may collaborate intensely with some of its suppliers in one country and not collaborate in another country. The same retailer may collaborate intensely with some suppliers and collaborate little with others. This ambiguity on the unit of analysis caused many practitioners to question the usefulness of the scorecard.

Commonly, companies benefit more from the scorecard analysis if they complete it for specific trade relationships in a specific country for a specific category.

However, many companies do not pursue such a detailed analysis as they consider it to cause too much work. Retailers, who often handle a supplier range of more than 1'000 suppliers with relatively few buyers, mention that they hardly have the resources to conduct a wide-ranging analysis per supplier and category. Instead, they frequently cumulate categories or suppliers and drop parts of the questionnaire.

International manufacturers tend to answer at the more general level of the unit of analysis – e.g. at a corporate, European level.

Yet, the missing values on retailers side or the averaged nature of manufacturers' responses make it more difficult for them to assess and benchmark their ECR adoption progress. The more general the answer; the less precise and operational the results.

Many practitioners think that the questions in the scorecard are too detailed. Indeed, the scorecard distinctively specifies the different ECR concepts in separate questions. When companies adopt ECR by pursuing several ECR concepts simultaneously in bundles, people lose the awareness that they uniquely combine ECR concepts.

Some practitioners have suggested to combine the questions about assortments, promotions, and new product introductions into one question on category management. Given that the individually pursued bundles of ECR concepts differ substantially, the Global Scorecard would lose its generic applicability if these suggestions would be taken up.

Many companies engage in ECR because they hope to improve their business results by collaborating with their trading partners.

Through the use of Key Performance Indicators, one could expect to experience direct effects of ECR adoption, while adoption measures are only likely to improve indirectly over time.

A set of Key Performance Indicators is included in the Global Scorecard. The focus of these KPI is mainly put on the supply side, partially because here immediate benefits are expected to occur.

Practitioners are generally happier with this part of the Global Scorecard, as the KPI are more straight forward in their formulation than the ECR adoption measures. However, for some measures (kpi) respondents find it difficult to get data. For some others, measures appear somewhat ambiguously formulated, leaving room for interpretations.

As mentioned for the ECR adoption measures, the unit of analysis for the key performance indicators used in the global scorecard is not specified. Frequently, respondents are inconsistent with the unit of analysis over the different questions. Respondents may have data on the service level for one specific retailer, but few have split down the distribution costs by retailer, too.

Also, it makes a difference whether companies look at pallets, cases or single items when measuring the KPIs. So, when pragmatically responding to the outcome measures it is common that respondents change the unit of analysis. Unfortunately, this makes it difficult to draw conclusions on the effects of ECR adoption on companies business performance.

Measuring performance on the demand side is trickier as other factors frequently have substantial impact, e.g. pricing, competition, or advertisement. Nevertheless, companies target to improve also in this area through ECR.

APPENDIX C

Case Studies

In this section, we briefly describe some of the cases we had analysed in this survey. ⁶Further cases had been investigated, too. However, due to confidentiality issues the companies did not want to publish these cases.

C.1 Cases from France

C.1.1 Bel France and Système U

The partners

With more than one hundred years of existence, Bel France is the third biggest branded cheese producer in France (13,6% market share) and among the leaders in Europe with Euro bn2.1 sales turnover. Système U is a network of 849 independent stores across France generating Euro bn14.7 sales turnover. With a market share of 8,1% it is the 6th biggest French retailer.

The category & market condition

The global cheese category can be subdivided by the nature of the cheese (hard, soft, blue, goat, etc.) and by its customers or use (cheese for kids, diet, snack or appetizer cheese). The cheese market in France is growing and the French tend to consume a wider variety of cheese, picking up innovations and regional specialties.

Collaboration history

While an initial interest for ECR rose in 1997, it is 2001 that both companies considered a joint ECR approach. In September 2002, the CEOs of Bel France and Système U have signed ECR France's CEO Charter and committed, at a board level, their companies to adopt ECR. Three fields of improvement were focused: assortment, out-of-stocks and efficient promotions. Dedicated cross-functional teams have conducted, analyzed and rolled out many pilot projects where the integration of store managers contributed to establish a deep relationship and mutual understanding. The partnership with Système U is ongoing and both companies address jointly new issues to achieve continuous improvements.

Adoption status

In 2002 Bel France has started to adopt an ECR mindset. The first focus was on the supply side, as category management was only starting to emerge in the demand side at this time. Since then they have made a frog leap in adopting ECR. While they still are in pilot phase in some areas with a customer, the cross-functional project structure and an intensive documentation makes each pilot to a laboratory from which the essence is spread over the organization and to other partnership with customers. This allows Bel France to adopt speedily ECR in their every day business.

Accomplishments

In the three focus areas significant improvements have been achieved. Key reasons for out of stocks were identified jointly for the cheese category and have led to shared action plans. Moreover an emphasize on the information and the training of store managers, as well as the communication and adoption of best practices contributed to lower the out-of-stock rate of the cheese category by 25% in 3 years. Furthermore, in the area of efficient promotions a support was offered to the store managers and helped them to prioritize and "theateralize" the promotional events and better adapt their order quantity according to their needs during the promotion. The result was that the average promotional results in the cheese category were 3 times higher than the average of promotion results across all categories, when ECR best practices were adopted. Furthermore Système U and Bel France have outperformed the market since they have adopted ECR.

⁶ The case studies assessed were based on the scorecard questionnaire and evaluated upon ECR adoption levels on the demand side, supply side, enablers and integrators.

Lessons learned

Top management support and commitment, paired with a strong cross-functional team involvement (from the highest to the deepest level) are crucial to have ECR adopted fast throughout organizations. Training, support and “sensitization” on ECR within the company (including the stores) have shown to be a best practice and allowed ECR to be lived in the day-to-day business. At the end, it is the store manager which is in touch with the shopper and his contribution to projects allowed every member of the team to better understand the benefits and the requirements.

The focus on 1 customer and 1 project which drives the adoption of ECR practices between Bel France and other companies contributed to evolve together and foster on new improvements. Each time more visibility and understanding of the partner and of the own organization is gained, it allows to improve further the processes, leading to outstanding results. ECR is 80% people and 20% technology!

C.1.2 Système U and Danone Waters

The partners

Système U is a network of 849 independent stores across France generating Euro bn 14.7 sales turnover. With a market share of 8,1% it is the 6th biggest French retailer.

Danone is the second company in the market for bottled waters, controlling over one-quarter of the market with its two major brands Evian and Volvic.

The category & market condition

The French market for bottled water is highly consolidated with only four companies accounting for more than 80% of the total market share. In the last years an increased consumption of bottled water has been observed, which is expected to continue, driven by greater demand for newly launched flavoured (mostly low-calories) water.

Collaboration history

In September of 2001 Système U and Danone Waters have decided to adopt ECR and have signed an ECR France’s CEO Charter in which both companies committed to dedicate resources and unveil opportunities of improvement. The personal contact between both CEOs fostered a strong adoption of ECR around a joint “category mindset”, which was achieved through a shared analysis and a common redefinition of the category “water” in January of 2002. From the beginning on, the aim was to promote the entire category to serve the consumer and not just the products of the partner. In a common and continuous effort both companies still achieve new improvements.

Adoption status

Système U has internally nominated a globally responsible individual for ECR projects, which regroups the knowledge about ECR, while each specific project is usually under the lead of both companies’ responsible product managers. Together they involve other people within both organizations and form cross-functional teams. This approach result in a broad adoption of ECR demand side concepts at both companies, while due to the independence of the regional supply network at Système U the level of adoption of supply side concepts and ECR enablers differ between regions. The adoption of the second is mostly triggered by the manufacturer and the regional responsible.

Accomplishments

When the collaboration started, the water category was underperforming compared to the FMCG average market share. In about 2 years the market share rose over the FMCG average. Together both companies have redefined their understanding of the category and were able to pull together much more resources to refine the assortment, the shelf layout or promotional or new product introduction strategies. There is a big reciprocity between Système U and Danone Waters concerning data and information sharing, what provides both with an important gain of know-how and access to market knowledge. Moreover an important part of this collaboration was to communicate potential benefits down to the store owners and

to the other manufacturers in the category and convince them to adopt the new assortments. The time between planning and adoption has dramatically shortened in the last years, due to communication to the stores over intranet, regular meetings with regional decision makers, and the involvement of selling forces of Danone.

Lessons learned

The companies' strategy to launch ECR was to give ECR top management commitment, in order to change the mentality towards trust and foster the reciprocity of both partners. The quality and the proactivity of the people involved on both sides helped the projects to sustain and to succeed.

A strategic alignment between the partners is required to initiate new joint projects, which then pursue objectives shared by both partners. Moreover every joint action has to support the common "vision of the category" and not the products of the manufacturer, so it will not impede on other manufacturers.

Through their know-how of the points of sale and their background of merchandising, the sales forces from Danone Waters were an important help in rolling out actions at the stores. Furthermore pilots done at some stores could be shown as an example to other stores and helped convincing them to participate and adopt the proposed plans.

C.1.3 Unilever France and Carrefour

The partners

The retail group Carrefour operates stores of multiple formats in more than 30 countries. France, where the group is the leading retailer, accounts for about the half of its sales.

Unilever is a leading international manufacturer of branded food and home & personal care products. In the French personal care market, its subsidiary Unilever France accounts for 20% of market share.

The category & market condition

The personal hygiene category (bath and shower products, deodorants and hair care) has to face a maturing market in France in particular in terms of penetration. Nonetheless value growth was achieved in the last years with the help of "upper-mass" ranges at grocery outlets. A trend towards sensory marketing as well as the targeting of men can also be observed.

Collaboration history

In 1997 Unilever has started adopting some ECR concepts mostly within the framework of category management, in order to develop the category in the partnership. Carrefour, as a major actor in France, was involved early in collaborative business plan initiatives. From 2000 on, the joint adoption of new logistics concepts, such as VMI, has strengthened the regular exchange of information. In 2003 a customer business centre was launched to gradually regroup the consumer perspective and the supply chain perspective within Unilever and facilitate the coordination of ECR projects with clients, i.e. also Carrefour.

Adoption status

Due to the early focus on category management, demand side concepts of ECR are nearly fully adopted in the partnership between Unilever and Carrefour. Supply side concepts as well as enablers of ECR were adopted through the implementation of VMI and the focus on aligning supply chain activities in this partnership.

The adoption of ECR integrators is still in progress, especially due to the average maturity level of the French market in regards to exchange of information. However, recent efforts towards CPFR demonstrate a willingness to collaborate more closely in future, which is paired with an evolution of capabilities offered by enhanced information systems.

Accomplishments

The accomplishments of the strong partnership between Unilever and Carrefour can be illustrated, for example, with the significant acceleration of the diffusion rate of new products at stores, leading to a higher satisfaction of all involved parties and to an outstanding success of new product introductions. Furthermore, Champion Supermarkets' ability to analyse the information base of its loyalty cards has provided Unilever a deeper shopper insight. This has enabled Carrefour to address specific consumers, selected according to jointly established criteria, through promotions that reflect the common strategy followed in this partnership. Such a focussed collaboration has allowed enhancing the value for consumers.

Through better knowledge and understanding of the processes at the respective partner, collaborative processes have been improved. This has led to a more responsive and efficient relationship that increasingly harmonizes demand side and supply side aspects.

Lessons learned

Human relations play a key role. The competences of the contacts as well as the maturity of the partner's organisation have to be considered before making, respectively communicating, any change. However, manufacturers should always be ready and open to new concepts from retailers.

Stores are the contact point with the consumers. Their involvement is crucial to conduct on-shelf-availability projects that are later rolled-out successfully or to accelerate the diffusion rate of new products.

A deep socio-demographic analysis of the consumers of a product and the shoppers at the retailer allows to foster and focus the partnership, achieving outstanding results.

In the future there will be more information than goods that will be exchanged; to make a sensible use out of it will be challenge of tomorrow.

C.1.4 Coca-Cola Entreprise and Système U

The partners

The Coca-Cola Company is a worldwide soft drinks producer. In the French carbonated soft drink market, its subsidiary Coca-Cola Entreprise is a major player with strong brands like Coca-Cola, Coca-Cola light, Fanta or Sprite.

Système U is a network of 860 independent stores across France generating Euro bn 14.7 sales turnover. With a market share of 8,1% it is the 6 biggest French retailer.

The category & market condition

The "soft drinks" category includes carbonated soda, ice tea, fruit beverages and syrups. The French soft drinks market is the fourth largest in Europe (after Germany, Italy and the UK). Sales are expected to keep increasing as new flavours and low-calorie variants appeal to new consumers.

Collaboration history

In 2002 Coca-Cola Entreprise and Système U decided to foster the adoption of ECR in their relationship. This decision was formalized in November 2002 with the CEOs of both companies signing the ECR France CEO Charter. The aim of this collaboration was to develop the soft-drink category. Four key areas were identified to reach this objective: improvement of on-self-availability and of promotional efficiency, differentiation through self lay-out and extension of VMI to every region. Furthermore Coca-Cola Entreprise's know-how in the soft drinks category is shared with Système U, for example in the form of recommendations for the assortment.

Adoption status

Demand side concepts and the use of ECR enablers (except RFID) are part of the day-to-day business in this partnership. The adoption of those concepts is continuously improved through the focus on the key areas mentioned above. Due to the independence of Système U's stores,

supply side concepts are still in deployment. However, the extension of VMI to every region will broaden their adoption. ECR integrators have not been adopted so far. Both companies dispose of so-called “mirror organization”, where each member of a dedicated cross-functional team has his counter part at the partner, that facilitates and accelerates every decision.

Accomplishments

Through working together on key areas, both companies understand better the demand and supply side processes of the partner and this is improving from year to year. The high involvement from both partners results in a high equity perception as well a high satisfaction regarding this relationship. This long term partnership already delivers effective results with great potential for growth: +0,50pt market share per year in soft drinks. Such a satisfaction paired with gaining market shares is encouraging and a goal of adopting ECR. Moreover the success of newly launched products at Système U exceeded the overall average.

Furthermore after having analyzed the main root causes for out-of-stocks at stores, actions plans have been adopted successfully. The lost turnover has dropped from 12% to 7,9% (-33%!) between Q1 and Q4 of 2004, i.e. + Euro mill. 4.6 potential additional turnover for all Système U stores.

Lessons learned

ECR needs to be decided at the top level and has to be part of the strategy of both partners in order to ensure a proper resource allocation for its adoption. Then mirror-organizations composed by dedicated teams allow sustaining and developing the potentials of ECR in the day-to-day business.

The fundament of ECR is transparency of data. Without this transparency a correct assessment of the business is difficult. Furthermore the identification of key points to improve requires detailed data, averages are not always sufficient (e.g. for out-of-stocks). Technology enables the partners to conduct fact based and result oriented processes, with regular KPI measurements and joint evaluation.

The adoption of ECR is done at the retailer! Obviously, it is done with the brands of the manufacturers; however it happens locally in the stores. Manufacturers shall be firstly understood as source of proposals. This places the decision responsibility on the retailers but also lets them do their job.

C.1.5 Procter & Gamble and Carrefour

The partners

The retail group Carrefour operates stores of multiple formats in more than 30 countries. France, where the group is the leading retailer, accounts for about the half of its sales.

Procter & Gamble is a world leading fast moving consumer goods manufacturer. Its French subsidiary leads the nappies/diapers/pant sector thanks to their international brand Pampers.

The category & market condition

In France, the nappies/diapers/pant sector is a consolidated market with a high level of maturity. Although a relatively high birth rate prevails in France compared to other European countries, a slight decline was observed recently. In order to attract new consumers, products are increasingly sophisticated and adapted to differing needs (e.g. disposable pants or products adapted to a very sensitive skin).

Collaboration history

At the outset of ECR in France, Procter & Gamble and Carrefour had already understood the importance of an efficient response to consumers for their respective business. In the course of their commercial relationship, they first approached ECR through common efforts to improve the supply side, before initiating projects to collaboratively introduce new products and later adopt category management. Joint business plans were adopted in order to strengthen the willingness of both companies to plan, anticipate and gain more visibility on collaborative processes. Together Carrefour and Procter & Gamble continuously evolve in a

collaborative relationship that further deploys ECR across various categories to provide added-value to the consumer.

Adoption status

Most of the demand side concepts of ECR are rolled out in the relationship of Procter & Gamble and Carrefour. Concepts like new product introductions, efficient promotions or efficient assortments are broadly adopted and their respective evaluation is generally shared and discussed. Early efforts on the supply side have led to the full adoption of most of the demand side concepts of ECR as well as ECR enablers. The adoption of most ECR integrators has reached a pilot level. Such pilots try to foster the prevalent exchange of information and achieve a more collaborative practice (e.g. CPFR).

Accomplishments

Through the establishment of business plans and regular evaluations, both partners understand better the drivers for the category and the objectives of both companies. In this way they have gained more visibility on the activities of the respective partner and can better anticipate.

Together with new product introductions, efficient promotions have significantly contributed to increase category growth. Yet, the knowledge exchange on how to display products on shelves, how to communicate to points of sale, how to define “universes” inside the stores as well as the systematic analysis of promotions and new product introductions has significantly improved the know-how of both partners in regard to providing added-value to the consumer. In search of the optimum promotion, the combination of assortment, product display, communication with the partner company and with the shopper has delivered excellent results. Such an integrated approach is the outcome of a long-term and a solid collaborative relationship.

Lessons learned

A real optimisation of a process can only be achieved through better understanding the relative processes along the value chain. A regular information exchange is important to increase the visibility of the activities between the companies as well as the measure of different performance indicators. In this context, keeping the tools and methods to measure and evaluate processes the simplest as possible can really fostered their use and a common understanding.

To have a cross-functional organisation working, the partner has to be ready for it; if not there is no mirror effect and no activity. However when it is working, such an organisation can really contribute to better understand the partner and increase the information exchange. This finally results in a better service to the consumer.

Once a strong ECR partnership has been established, constant improvements can deliver competitive advantages. They are still many areas to improve, e.g. through shopper data analysis and POS data. Differentiation cannot be achieved once; it is continuous process, as is ECR.

C.1.6 Gillette and Carrefour

The partners

The retail group Carrefour operates stores of multiple formats in more than 30 countries. France, where the group is the leading retailer, accounts for about the half of its sales.

The US-based company Gillette is the world's biggest manufacturer of shaving products. In France, Gillette France SA accounted for 34,6% share of value sales of men's grooming products and 67,3% of men's razors and blades.

The category & market condition

Men's grooming products are subdivided in shaving products and personal care products. The sales of men's grooming products enjoy a continuous growth benefiting from the long-term trend towards the use of cosmetics by men, strongly driven by innovation and creativity. In

particular products relative to shaving tend to offer a greater sophistication that appeal to young adult men. Due to the high value and the small volume of the products of this category, very high shrinkage prejudices the on shelf availability rate.

Collaboration history

At the end of the 90s, Gillette and Carrefour showed a common interest in ECR principles. While the demand side adoption of ECR was mainly developed around category management principles, the supply side approach was a consolidation of various operational projects that aimed to optimise the supply chain. The recent creation of the value chain organisation contributed to fully integrate these projects within an ECR framework at Gillette. Regular top-to-top meetings between Gillette and Carrefour allow sharing their strategic orientation and thinking about new challenges and potentials to be realized within their ECR relationship.

Adoption status

Category management principles, as well as the other demand side concepts of ECR are integrated in both companies' daily business processes. In general the planning and adoption of assortments, promotions and new product introduction is fully adopted, however their joint evaluation could be further applied. The adoption of supply side concepts is very developed between both partners, as well as the extensive use of ECR enablers. Many projects to optimise transport, replenishment or product availability have been rolled out successfully.

Accomplishments

The tight collaboration in the supply chain has resulted in a better information exchange and understanding of the processes at the respective partner. In this context, for example, root cause analysis has been systematically adopted to better understand which are the reasons for out-of-stocks and improve the product availability at stores. It has induced improvements in the replenishment processes and reduced the on shelf out-of-stock rate by 4 in a few months. As the name already indicates, the customer is at the centre of ECR efforts. In this sense, an analysis of the customer basis of Carrefour (with the help of their loyalty card) has allowed targeting customers and conducting successful mailing campaigns leading to a significant increase of the sales of the concerned products.

The fragile balance between costs and service was improved by collaborating with other manufacturers on logistics matters. For example, the partial reengineering in a multi-pick supply chain has delivered important cost savings and improved the service to Carrefour.

Lessons learned

Adopting ECR principles is a rational way to solve operational problems and optimise collaborative processes. A clear communication of the expected benefits (in particular the ROI) at both partners particularly emphasizes the commitment of the involved parties to ECR projects. Hereby, the win-win approach of every project is extremely important. In addition the rating of employees on a balanced set of objectives can induce them to seek for more dialogue and information sharing with their commercial partners as this allows foreseeing problems and acting proactively.

Assigning people to an ECR project in addition to their daily tasks may cause a temporary lack of resources in the project, if there are important cyclical patterns in the daily business or many events to manage. The creation of a support organisation for projects helped to reduce the workload during these phases and maintain the advantages of a multi-functional project team.

C.1.7 Kraft Foods and Carrefour

The partners

Kraft Food Inc. is the world's second largest branded food and beverage company. As a leader in the hot drink category in France, its subsidiary Kraft Foods France accounts for more than 30% of market share. The retail group Carrefour operates stores of multiple formats in

more than 30 countries. France, where the group is the leading retailer, accounts for about the half of its sales.

The category & market condition

The French market for hot drinks is concentrated with the top three manufacturers, predominantly of coffee, accounting for over 56% share of value sales. Coffee, which is the most consumed hot drink in French households, has suffered slowly declining sales in recent years. New innovations aim at improving the convenience (wafer coffee) and offering a greater variety of coffee and personalization to revitalize the market.

Collaboration history

In 1995, Kraft Foods and Carrefour were among the pioneers of ECR in France, participating at round tables and discussing the importance of centering decisions on the consumer. From 1997 on, the gradual orientation of Kraft Foods' organisation towards ECR structures enabled them to initiate ECR demand and supply side projects with interested retailers, such as Carrefour. In the first years, the adoption of ECR was mainly of supply side nature, as these projects generated faster productivity increases. Consequently, ECR demand side projects gained more importance within the framework of category management, starting with the optimisation of assortments, promotions and new product introductions.

Adoption status

The relatively long experience with ECR allows both companies to achieve a high adoption and adoption of ECR in their partnership. Concepts like category management or optimisation of demand side processes are fully integrated in their business relationship. As they both were among the firsts to regularly use EDI and adopt VMI, the adoption of ECR enablers is broad, although some EDI messages have only started to be exchanged recently. Regular meetings and information exchange between both companies foster the continuous improvement of existing collaborative practices in order to evolve together within ECR (e.g. adopting CPFR).

Accomplishments

The success of the recent introduction of the new hot beverage system "Tassimo" illustrates the collaborative efforts and the alignment of processes that were achieved within one year of planning. In particular the timeliness between the promotion campaigns and the diffusion at stores, as well as the execution on the shop floor was excellent. Moreover the outstanding sales results clearly showed that "Tassimo" was corresponding to consumers' needs. In addition to the specific efforts for this product launch, it is also the result of the long-term relationship that exists with Carrefour. Yet, a better understanding of the demand and supply side processes of the respective partner was gained, leading to a reduction of the lead times and a significant improvement of the service level, the on-time delivery and the perfect order rate.

Lessons learned

A parallel approach of ECR, once through one-to-one initiatives with business partners and once through the participation in workshops and pilot projects from ECR France and Europe allows being a leading adopter of ECR.

The maturity of the client, as well as the one of the country, influences a lot the level of adoption of more complex and highly collaborative practices of ECR. Organisational changes should be in accord with those at the respective client in order to bring most benefits.

The present context of the retailing industry in France impedes long-term oriented projects of ECR to be adopted, due to the predominant focus on short-term growth and the uncertainty of future legal conditions.

Information about shoppers is costly and tools to assess differences between regions or areas are not powerful enough to develop successful geo-merchandising solutions. Joint resources of retailers and manufacturers already allow to better target consumers, however this is a very time consuming task.

C.2 Cases from Germany

C.2.1 METRO Group and Procter & Gamble

The partners

METRO Group and Procter & Gamble live their shopper centric statement of purpose in a mutually successful ECR cooperation. The two powerful partners, with total sales of Euro bn 53 and Euro bn 43 in 2004, jointly sold over 300 articles through five different sales channels in 30 countries. The hypermarket division of METRO Group, Real, targets the so called 3+ household, a strategy that ideally suits the Procter & Gamble product portfolio.

The category & market condition

Real and Procter & Gamble mainly compete on two dimensions in the diaper category. First, they regularly lower prices down from Euro 0.30 to Euro 0.18 per diaper during times of promotions to compete with private labels of discounters who offer prices below Euro 0.15 per diaper. Second, they compete with other hypermarkets in terms of offering the best assortment. ECR provides the partners with tools and concepts to remain ahead of competition on either dimension.

Collaboration history

The history of the ECR collaboration between METRO Group and Procter & Gamble started with early adoption, e.g., of Category Management (CM), and standardising it by suitable technologies. Such, CM evolved quickly from a paper-based approach for one category in 1994 via cross-category projects ("Baby, Kids & Co.", a focused selection of food and non-food items) to Customer Relationship Management (CRM) with shopper-based marketing programs. CM today is fully supported by the software 'CMplus' that provides a standardized approach and a workflow based collaboration tool. Technology also facilitated the reorganization of the supply chain towards a pull organisation using central warehouses. Here, the adoption of common communication protocols such as EANCOM and progress in the respective standards culminating in WEBEDI enabled the use of tools for efficient and flexible replenishment, such as Continuous Replenishment Policies (CRP) or Cross Docking. Finally, the electronic market place GNX is the basis for sharing information within Collaborative Planning, Replenishment and Forecasting (CPFR). Further supply chain efficiencies are expected from the recent introduction of Radio-Frequency-Identification (RFID) technology in 2005 and beyond.

Adoption status

In the 11 years of the collaboration between Real and Procter & Gamble, almost all facets of the ECR scorecard have been successfully adopted for the diapers category. On the demand side, a thorough shopper understanding allows differentiated solutions to target the individual members of the 3+ household in each stage of their live. These set the frame for the optimisation of assortments, promotions and new product introductions, which are managed as a standard process today. On the supply side, the ECR concepts on the responsiveness and the operational excellence of the supply chain are rolled-out. Recently, the partners piloted a "consumer-driven supply network". This envisions a supply network that puts the consumer needs ahead of a cost mentality and links the ECR demand and supply side. Finally, CPFR is fully adopted but restricted to promotion items, considering the forecast accuracy for regular items.

Accomplishments

In the competitive retailing environment, the accomplishments of the collaboration are best described by the sales growth of Procter & Gamble products at METRO Group. This figure arrived at an astonishing rate of 15 percent in 2004 and thus is above the respective total sales growth of METRO Group with five percent and Procter & Gamble with 11 percent for the same year.

Lessons learned

The key learning from this show case on supply chain collaboration is the requirement to move from ECR to Retailing Excellence. The success of the collaboration with Procter &

Gamble in Germany is not representative for the overall adoption status of ECR tools and techniques across all suppliers, countries and sales divisions of METRO Group. Thus, in order to not get lost in the full roll-out of ECR, management at METRO Group realized that the ECR framework needs to be linked to its corporate strategy and focus on setting new standards in the retailing industry, enabled and supported by innovative technologies. Besides, Retailing Excellence requires both partners to take the lead in three major directions: i) constantly improving shopper understanding, ii) structuring and coordinating the supply chain for standard as well as promotion-intensive product categories, and iii) developing new technologies for retailing and adapting these where suitable.

C.2.2 Kraft Foods Deutschland GmbH

The company

Kraft Foods competes with its coffee brand 'Jacobs Kroenung' in a hard-fought market. Despite stagnating consumer demand for ground coffee, it remains the single product with highest absolute sales in German retailing. This competitive pressure comes along with an eroding retail price down to an all-time-minimum of Euro 3 for a 500-gram-pack of ground coffee by the end of 2004. Taxes and raw material price consume a significant part of the retail price and leave only minor margins to retailers and manufacturers. In this environment, efficient supply chain and demand management become a crucial success factor not only for Kraft Foods. Therefore, the company considers ECR as a major lever to remain competitive as a 'preferred partner' to both retailers and consumers.

The ECR history

The history of ECR adoption at Kraft Foods shows successes, but also failures. On the supply side, where benefits of the ECR concepts were easily quantifiable, it can be described as a smooth process. On the demand side though, for a lack of qualitative benefits, adoption was more difficult. For example, pioneering 8-step Category Management (CM) with retailers failed in the first attempt. The process was too lengthy with a lack of measures for category plans, non-standardized data sets and low interest from retailers. Based on their lesson learned, Kraft Foods developed a day-to-day CM concept, where each of the original 8-steps was reconsidered for automation potential and finally condensed to 3 steps only.

Adoption status

Kraft Foods offers its retailers a complete toolbox of proven ECR concepts as branded in their Kraft Plus Scorecard. Based on 'Insights' on the individual retailers' market and shopper situation, tools and solutions on the 'Demand' side and 'Supply' side are being tailored. Thus, for the considered collaboration, all ECR concepts on the demand side are adopted and jointly operated on a daily basis. There is a strong focus on data; such that a retailer could be convinced of a beneficial change from an EDLP to a high-low pricing strategy based on the three dimensions of purchase frequency, revenue and volume sales. The concepts on the supply side are all adopted except for the integrated demand driven supply chain. Considering the relatively low purchase volume of the retailer, few benefits on overall sales or market share are to be expected. The sentence does not fit in here.

Accomplishments

In their view, ECR is a powerful tool for both internal and external communication. Internally, it documents and spreads the knowledge in ECR adoption of Kraft Foods and increases the acceptance and identification of their employees with ECR. Externally, it supports the perception of Kraft Foods as being a 'preferred partner' and a synonym for the company's competence and know-how. Last, it aligns strategy of channel partners, since it emphasizes growth and optimization potential jointly with retailers.

Lessons Learned

There are at least four major lessons learned that ensure the sustainable success of ECR at Kraft Foods. First, ECR is an essential part of the company's mission statement and thus top management attention is inevitable. Second, ECR is lived by an organizational integration of demand side and supply side concepts into each account team. This setup provides the basis

for tailoring ECR concepts to actual retailer and consumer needs. Thirdly, it is the way how ECR projects are approached at Kraft Foods. Learning from their early failures with CM, today, they pragmatically access ECR projects by simplifying and adapting them. Moreover, they move quickly from projects to processes. Fourth, it is the sharing of this know-how as documented in Kraft Plus. Most importantly, this permits a dialogue with the company's partners aside from price negotiations. All in all, these beneficial setups support Kraft Foods in being their customers' and consumers' preferred partner and remaining competitive in the described environment.

C.3 Cases from Greece

C.3.1 Veropoulos & Henkel

The partners

In the competitive business environment of the Greek grocery retail market, where two international and three national retail chains account for approximately 60% of the total retail market, Veropoulos is ranked in the fourth place with 9,6% market share. With 200 stores all over Greece, Veropoulos covers almost the whole country, with expected turnover for the year 2005 at about 725 million Euros, and presence also in the Balkan area with 8 stores. The company is a great supporter of ECR, participating in both local and European ECR groups, and open to collaboration with suppliers in both supply and demand projects.

Schwarzkopf&Rilken (SRH) is the Cosmetics division of the Henkel Group in Greece. Active in almost all cosmetic categories, the company is the number four player in the Greek market. With a quite long and specialized product assortment spread across several categories, the company prefers to make direct-store-delivery wherever possible in order to better manage availability and shelf appearance. In the case of Veropoulos stores, the company distributes some of its categories via the retailer's central warehouse and the rest via direct-store-delivery.

Collaboration history

Till 2004, collaboration between the two companies was limited to category management on bath & shower, deos and soaps categories, multi-brand and tailor-made activities and joint participation on national ECR projects. In 2004 SRH and Veropoulos started a pilot collaboration project on store ordering and replenishment with the objective to reduce out-of-shelf, increase the effectiveness of the store ordering process and improve the handling of cosmetics categories. In practice this meant that the SRH salesman would log into an Internet-based collaboration platform, which provided him with daily POS data, store stock information, promotion information, store product assortment information etc., and prepare and send electronically a suggestive order to the store. This suggestive order would include both the products delivered directly to the store by SRH and those delivered via the retailer's central warehouse.

Adoption status

The collaboration started with a pilot program in five stores located in the Athens area and several issues had to be settled before the program could run smoothly, such as technical integration of the collaboration platform with SRH's internal systems, stock counting in all the stores and updating of the platform, training of the salesmen and agreement with the store buyers on the process steps, etc.

Strong positive results from the first pilot gave the two companies the green light to continue. Roll-out of collaborative store ordering to the rest of the 60 Attica stores started in March 2005, whereas rollout to the 100 stores in the rest of the country is scheduled for autumn 2005.

Accomplishments

The results were by far rewarding for the effort invested. The product mix in the store was harmonized and well monitored, the level of trust between the two companies further increased, SRH achieved higher service levels and definitely fewer out-of-stocks, better shelf presence and ultimately increase in its sales. To put it in numbers, we observe a 64% sales

increase in the pilot stores for SRH, compared to a 6% increase in the rest of Veropoulos stores in Attica and to a 3% increase in the total Veropoulos stores. SRH was able to synchronize the delivery of goods to the store with the visit of the merchandiser, in order to take care of the shelf replenishment and appearance. This is compared favourably to the previous situation where the merchandiser and the salesman had to visit the store in advance, acting mainly as order-takers.

The outcome in the long run is expected to be a significant time saving for SRH's sales force, which can be translated into an increase of the daily store visits, further decrease of out-of-shelf levels with simultaneous inventory decreases, better management of product mix and, of course, increased consumer/ shopper satisfaction.

Lessons learned

This process required increased level of trust between salesman and store manager, changes to the ordering process for both direct-store-delivery and orders to the central warehouse, as well as changes to the salesman and merchandising visiting schedules. However, the results were by far rewarding for the effort invested in the process of collaborative store ordering.

C.3.2. Carrefour and P&G

The partners

Carrefour, the first retailer in Europe and the second largest worldwide, arrived in Greece in 1999. In less than 2 years Carrefour became the number one player in the Greek market by acquiring the Marinopoulos retail chain. By the end of 2003 Carrefour-Marinopoulos, with approx. 22,5% market share, operated 13 Hypermarkets and 145 Supermarkets across the country with group sales of over 1720 mil Euros. Procter & Gamble (P&G) is one of the world's leading manufacturers of consumer goods, marketing nearly 300 brands in more than 180 countries around the world. The Greek Procter & Gamble Company (P&G Hellas) was founded in 1960 and it was one of the first foreign companies established in Greece. The company focuses on beauty care, health, baby, and family care and household care and possesses major or leader market shares in the various categories with brands such as Tide, Ariel, Crest, Pantene, Always, Bounty and Pampers.

Collaboration history

The two companies, P&G and Marinopoulos initially, were among the first to start collaborating on both category management and CRP projects and make these day-to-day business practices. In the course of this collaboration, the two companies came across a finding that later-on had a significant impact on their business. As presented in the ECR Europe 2000 Conference in Glasgow, the two companies realized that the main shopping target and biggest consumer group of the Marinopoulos retail chain were young women, most of them young mothers as well. Further shopper research revealed that mothers created strong and loyal relationships with the baby product stores, which enabled fast and convenient shopping. In this way a new project idea was born: the Baby Universe. This project included the concentration of all the products related to Baby Care in one section of the retailer's store serving the convenience of the Baby Care consumers and the shortening of their shopping time. In other words, the baby milk was no more in the Dairy Section, the Pampers in the Diaper Section etc. but they were all gathered in a common "corridor".

Adoption status

The "Baby Universe" project has turned out to be a major piece of Carrefour's strategy and the company is the only retailer that uses direct mail and adopts the same layout across all the stores. What was a pilot in 1999 has now become a standard business practice that involves collaboration between the retailer and other suppliers as well apart from P&G (e.g. Johnson & Johnson, Nutricia etc.) while the "Universe" concept has also been extended to other product categories.

Accomplishments

During the pilot phase of the project (January 1999-September 2000), the company achieved 44% category sales increase in the 29 pilot tested stores. The project was soon rolled-out to all the company stores and the targets of 35% sales increase for 2001 and 40% for 2002 have also been reached.

Lessons learned

In this new section, the shopping target, especially mothers, can find all the essential products and information for babies. At the same time, the new section provides a convenient location for communicating with the consumers, executing the promotional campaigns and offering differentiated solutions. This project aimed not only to satisfy the needs of the consumers but also to increase the sales of the Baby Care category.

C.3.3. Metro-MyMarket

The company & market condition

Metro, bearing a mere synonymy with the global retail chain, is a local Greek retail chain, positioned in the 7th position with approx. 5,5% market share in the Greek grocery retail market. Since its establishment in 1976, it performs a dual role both as a retailer, with currently 40 retail stores in Attica, and as a wholesaler, with 27 Cash & Carry stores across the country. The company operates as a family business, with second-generation young management, and is quite active in ECR Hellas projects.

Adoption status

In terms of ECR adoption, the company runs CRP with some major suppliers, as well as joint promotion plans and category management programs in collaboration with certain suppliers. What has also been a great influence of ECR is the attention the company pays to customer satisfaction and commitment. It was under this perspective that recent shopper research indicated the need for a brand and image change in order to bring the supermarket stores closer to their customers.

Accomplishments

In June 2004, Metro decided the conversion of its already recognized brand name in retail chain with a new label, "My Market". "My Market" has become the new corporate identity that characterises the company's retail activities and its attitude towards consumers' satisfaction. This endeavour dissociates the Cash & Carry side from the supermarket business and inserts the philosophy of qualitative service to consumers.

Additionally, the new label reinforces the autonomous development of each store. "My Market", not only aims to diffuse the idea of having the consumer into the centre of the company's activities, but it also anticipates to make consumers think of each store as a cosy and friendly place to do their shopping.

Lessons learned

Each of "My Market" stores aims to offer a pleasing and gratifying environment, in which consumers have the opportunity to cover their needs easily and quickly. The personnel has been appropriately trained to advise consumers and offer friendly and personalised services that most of the customers seek in "their" supermarket. Through this change Metro has started enjoying increased sales and the acquisition of young and dynamic shoppers.

C.3.4. Colgate-Palmolive

The company & market condition

Colgate-Palmolive is one of the leading manufacturers of fast moving consumer goods worldwide, active in categories such as oral health, body care, domestic cleaning and clothes care. Colgate Palmolive Hellas was set up in 1962, although its products had been imported and distributed before that by a Greek company. In 1990, Colgate-Palmolive instituted the Department of Pharmaceutical Products for Oral Health, an initiative aimed to produce qualitative and salutary products. Since then, the corporation has modernized its settlements

and infrastructure, whilst it has launched exporting activities to numerous countries. Colgate-Palmolive Hellas now holds a significant position in the Greek market, attributed to its sales, financial indicators, and indicators of efficiency and effectiveness.

Collaboration history

Recently, Colgate-Palmolive has started a collaborative project with selected retail partners relating to the use of a special shelf construction aiming to educate and facilitate consumers of the oral care category. This construction can be adapted to the available shelf space in each store and has been pilot tested in selected stores. Its name, Oral Care Boutique, denotes that it aims to make the shelf space more appealing and useful and at the same time aid consumers make more rational decisions and purchases consistent with their real needs.

Adoption status

Colgate-Palmolive Hellas has been a supporter of ECR initiatives from the outset, having active participation in various ECR Hellas projects. The company follows the CRP (VMI/CMI) practice in collaboration with its top customers, whereas it has also been involved in several category management projects, as well as has focused on measuring and confronting the problem of out-of-shelf, again in collaboration with top retailers.

Accomplishments

The Oral Care Boutique contains the whole product category and not just Colgate Products. It can be adapted to existing store shelves in different retail environments, is built with durable materials, and is flexible in that it can be used as a whole or in parts. In this way, consumers are trained and gradually select more specialized and qualitative products. The results and benefits that are expected from this cooperation include increased sales of the oral care category and higher consumer loyalty to the store through:

- their education for more frequent use and/or use of more specialized products
- increased consumer satisfaction by facilitating a planned purchase
- higher consumer enthusiasm leading to a spontaneous purchase

C.3.5. Elgeka

The company

The Greek company Elgeka S.A offers an integrated system of commercial services that includes sales, marketing, trade marketing, logistics and merchandising, while all the above services are provided with the full support of financial services, customer services and information technology. Elgeka is working with companies in Greece, Europe and USA, by representing their brands in many different categories, where in many cases the brands are positioned in the first or second place. Its sales for 2004 amounted to slightly above 150 million Euros. In 2000 the company initiated its expansion in the Balkans, with business established in Romania.

Collaboration history

Elgeka has been the first company to collaborate with Veropoulos on collaborative store ordering and since 2003 it has adopted the CRP practice in collaboration with Carrefour. In some cases, the company also invests in category management programs with selected customers.

Adoption status

In the last two years, Elgeka has moved into an internal restructuring of the organization in order to better reflect its focus towards more collaborative relationships with customers and its aim to deliver value added services and enhanced consumer value.

Operating two central warehouses and its own fleet of vans, Elgeka delivers directly to the stores in most of the cases and invests in further enhancing its logistics know-how, especially in relation to fresh and frozen food delivery. One such investment relates to employing the HACCP system, ELGEKA FSMS (food safety management system), a systematic approach to prevent or at least minimize the possibility of unsafe food.

Accomplishments

ELGEKA is the first company in Greece that is certified in two HACCP prototypes (ELOT 1416, Codex Alimentarius) from two different worldwide-recognized bodies of Certification, demonstrating the company's commitment on food safety. Now ELGEKA is in the process of being certified according to EMS (Environmental Management System) ISO 14001 standard, demonstrating the intention that the company takes all the reasonable precautions and exercises due diligence in the environment from its activities. This certification process obliged the company to stop deliveries of fresh and frozen goods in certain parts of the country for several months. However, this step was deemed necessary in order to ensure high quality of products and services to consumers and customers.

Lessons learned

One of the company's key aims is to have a leading role in new developments, and to use new technology in a way that facilitates everyday business with customers and enhance collaboration and synergies.

C.3.6 Veropoulos and Unilever

The partners

As already mentioned in the previous case, Veropoulos is a Greek retail chain with presence also in the Balkans, and 9,6% share in the Greek grocery retail market. With 200 stores all over Greece, Veropoulos covers almost the whole country, with expected turnover for the year 2005 at about 725 million Euros. Unilever is one of the world's leading suppliers of fast-moving consumer goods operating in 150 countries and employing around 295,000 people. Its brands, divided in three global divisions: food, home and personal care, include Dove, Knorr, Lipton, Hellmann's, Magnum, Omo and Cif. Unilever Hellas S.A. incorporates the Home and Personal Care arm of Unilever in Greece, with products having top or leading positions in several product categories.

Collaboration history

The specific collaboration project refers to a joint promotion plan that was probably one of the most successful ever, resulting not only into significant sales increase for Unilever products in the Veropoulos stores but giving a great uplift to the whole product category. More specifically, the two companies in collaboration decided to differentiate from previous promotional offers and go for a store and brand loyalty activity. More specifically, the program gave consumers the possibility to purchase, in a period of almost three months, from 13th of May to 31st of August 2004, four Skip detergents and get a vacuum cleaner as present. The communication of this offer was supported with in-store posters and shelf pointers, Veropoulos monthly leaflets and radio advertisement.

Adoption status

Veropoulos and Unilever, both active in ECR activities, have a long collaboration history in demand and supply areas. Unilever is one of the first suppliers that have adopted the CRP program with the Veropoulos Central Warehouse. The two companies also collaborate on category management, where Unilever is the preferred supplier for running the category management program in certain categories, as well as on several joint promotion activities throughout the year.

Accomplishments

The objective of this differentiated offer was:

- a) to increase consumers' loyalty to the detergents category in the Veropoulos supermarkets
- b) to increase the shopping basket value in the Veropoulos stores, and
- c) to increase the Veropoulos shoppers' loyalty in Skip products.

The results were far better than expected not only for Unilever products, but for the whole category. While the category's value in the total market increased by 7% versus the previous year, in the Veropoulos stores the category value increased by 37%.

Lessons learned

The success of this project is attributed to the careful design and execution of the whole program in collaboration, as well as to the extra focus paid on increasing consumer value and shopper loyalty to the store and the brand. Following the successful results of 2004, a variation of this program is repeated in 2005.

C.4 Cases from Italy

C.4.1 Interdis & P&G

The partners

Interdis is a voluntary chain (32 small retailers, 3.400 stores, 7,24% market share, € 6.450 million business) centrally coordinated for marketing initiatives and for consultancy to the single associates, who, anyway, maintain high autonomy and adapt the guidelines with their own business goals. Interdis, together with Metro, Despar and Sisa is part of the purchasing association Mecades.

P&G is a major player of the FMCG industry worldwide operating in a wide range of categories.

The category & market condition

The washing-machines detergents market has had a limited growth in volume (+2%) and a stronger growth in value (+7,9%). Consumer preferences are polarized, on one hand, toward unbranded products (because of price convenience) and, on the other, to A-brands (which differentiate working on soft-attributes as perfumes, and use-convenience).

The market is very concentrated: the top three players take around 80% in value.

Adoption status

Partners' collaboration is exclusively focused on the demand side (especially CRM based initiatives), whereas the supply side suffers from the inborn characteristics of the voluntary chains. Standards adoption is rather developed as well as activity based costing, CPRF and consumer's value measurement.

Accomplishments

On the demand side, Interdis and P&G, who are both strongly contributing to the collaboration, have obtained very good outcomes in terms of relationship quality, reciprocal understanding and consumer/shopper knowledge. The companies registered a growth, in value and volume, of the joint sales, but collaboration costs in the short run have drained part of the benefit and Interdis' profitability for P&G's products in the category is lower than the average (of other categories and suppliers). Nevertheless, partners' satisfaction with the collaboration is rather high.

On the demand side, the best results have been obtained for assortment and promotion optimization by adopting a cross-category approach, which improved partner's sales and shopper satisfaction. On the contrary, new product introduction processes perform worse with respect to other categories and/or partners.

No figures are available about supply side performances as Interdis fragmented structure does not help in getting efficiently homogeneous data.

Lessons learned

Interdis' ECR adoption has been strongly wanted by the central management. The associated retailers really appreciate the outcomes of collaborative initiative but do not feel them as an essential need. Therefore, Interdis' central management has to face twofold obstacles: from the manufacturer – with their expectations and perspectives – and from the associated, who are benevolent toward the collaboration as long as it does not alter too much the usual business fashions.

The most of such barriers have been overcome thanks to the central management's diplomacy. Moreover, the collaboration is pulled from Interdis, which – after defining its own guide lines and goals for ECR projects – open the invitation to its suppliers. As conclusion, it emerges that Interdis is successful in ECR adoption (on the demand side) thanks to the head quarter's orientation to collaboration and advanced marketing capabilities. For such reasons, Interdis represents a preferred partner for suppliers who want to adopt ECR demand side.

C.4.2 Gillette and Carrefour

The partners

Gillette Group Italy S.p.a. - with about 270 employees, 150 sales agents, 510 million euros net sales – is the leader in the blades and razors category. Its main brands are Gillette, Mach 3, Oral B (dental care), Duracell (batteries) and Braun AG (electrical appliance).

Carrefour is a multiple retailer, leading in Italy as in the rest of the world.

The category & market condition

The blades and razors market doesn't show significant growth tendencies (519 million euros of total sales in 2003, +2,4% increase compared to 2002; in 2004 figures are more or less unchanged). Within the category, the most dynamic segments are the one linked to consumers' hedonic orientations. The market is mainly lead by Gillette's brands.

Collaboration history

Gillette-Carrefour collaboration in Italy started later than in other countries, nevertheless, the partnership is strong and has produced positive outcomes. Gillette Italy has begun its ECR experience with supply side projects, specifically working on electronic data sharing (EDI and VMI). Those were carried out with several partners, beside Carrefour, and some initiatives are still in progress. On demand side the main activity is category management. The collaboration, on such theme, consisted in a joint project with GS (a retailing chain owned by Carrefour), whose loyalty card data were very useful for collaborative CRM.

Adoption status

The Gillette Carrefour partnership is more developed on the demand side, especially for demand-strategy and shopper-value-creation, whereas obstacles affect principles execution. Supply side strategy alignment is rather high as well, but – as production is centralized and because of product specifics – the interest towards responsive and integrated-demand-driven supply is limited. Operational excellence is not totally achieved yet because of shrinkage and OOS. Standard codes adoption and EDI development have given good results, whereas the high start-up costs make RFID a low priority topic.

Concerning integrators, CPFR and ABC are not adopted at all by Gillette. A forecasting pilot project has been started, but it is not based on ECR methods.

Accomplishments

Gillette-Carrefour collaboration in Italy started later than in other countries, nevertheless, the partnership is strong and has produced positive outcomes: better mutual comprehension and alignment, category growth (in value and volume), increased NPIs efficiency and effectiveness and decreased time to shopper.

Extremely positive performances are registered for unit fill rate (99%; +12.5% in the last three years) and for on time delivery (98%; +8%). The same can be stated for inventory cover reduction at manufacturer's warehouse (12 days) and at DC (15 days; -50% with respect to three years ago).

EDI and VMI allowed high performances in terms of invoice accuracy: in general the rate is 98% (+8% in the last three years) and with VMI accuracy rises up to 100%. OOSs, despite they are still representing a critical state (15% in average, with peaks of 30% for Mach 3), have been reduced (-12% in the last three years).

Lessons learned

The collaboration case of Gillette and Carrefour shows the importance of spreading ECR vision across all companies. Management commitment is a fundamental ECR driver, but, when the operative levels are not motivated to support the partnership, short term focuses may obstacle collaboration execution. Furthermore, collaboration works better when ECR people within the companies are dedicated and empowered.

Gillette Italy represents a good example of “A-focus strategy” in ECR adoption. Indeed, some processes do not represent a collaboration issue for the supplier as they are not locally relevant (e.g. production related processes), or they do not represent a critical state in the light of category-product specifics (e.g. unit load optimization). Still, sometimes environment characteristics make non-sense developing collaborative projects as supply chains management specific per partner. On the contrary, there are critical states – as OOS management – which attract collaboration effort representing a priority (“A-focus”).

Finally, the case shows that some result from ECR adoption may come immediately (as more efficiency or category growth), but, at the same time, collaboration costs may drain such benefits to the extent that profitability decreases. Nonetheless, the two companies’ perseverance in collaboration testifies the consciousness that ECR is a guide to align long term strategies, to reach substantial and long lasting benefits.

C.4.3 Interdis and Coca-Cola

The partners

Coca-Cola Bevande Italia is the biggest bottler and distributor for The Coca-Cola Company’s brands in Italy. It is the result of a process of mergers, acquisitions and consolidation of more than 16 bottlers in northern and central Italy.

Interdis is voluntary association of 32 small-medium size Italian retailers.

The category & market condition

In 2002, sparkling soft drinks sales showed maturity, whereas still drinks had grown. The special hot weather condition in 2003 lead a remarkable growth of the soft drinks category, but in 2004 market values tended to contraction again (-4,6% in volume, -5.2% in value).

The Italian market is lead by Coca-Cola (52,0% in volume) followed by San Pellegrino (10,0%), San Benedetto (9,3%) and Pepsico (8,4%). Private labels, in 2004 reached a share of 9,6%.

Collaboration history

The majority of Coca-Cola’s activities in ECR initiative is about the demand side, for which one can quote the category management projects carried out with GS (2001) and with Interdis (2003). The latter, which has been the object of this case study, was based on loyalty cards data-sharing to carry out a consumers’ analysis directed to cluster them and to redefine category positioning as well as Coca-Cola products’ one within it.

Contractual policies and the project’s length have, on one side, caused a cost rising and, on the other, reduced the time to exploit its results. So, even if Coca-Cola registered a sales increase through Interdis’ stores – both in value and in volume –, its profitability has remained unchanged.

Adoption status

The Coca-Cola Interdis partnership is active only on the demand side. There is no collaborative activity in the logistic field, other than concerning the use of basic standards for this industry (EAN codes and ECR category tree). The lack of supply side activities is mostly due to Interdis’ structural characteristics: as it is a voluntary chain, it is very fragmented and lacks of a central coordination on logistics arguments. Coca-Cola is carrying out activities concerning the adoption of EDI and GLP-OSA (General Learning Program about On-Shelf Availability) but with others partner.

Accomplishments

Missing the collaboration on the supply side, there is a lack of measurements of logistic performances specific for Interdis. Anyway, we can assume that such performances are similar to the average registered from all the others retailers. In general, one can quote that Coca-Cola performs well in delivery time (48 hrs) as well as for service level/unit fill rate (98,4%; grown 5,92% in the last 2 years) and invoices accuracy (95,0%). Also forecasting accuracy is pretty good (15,0% average error on all category references produced by Coca-Cola) and OOS percentage is around 5,0%.

Succeeding in collaborative promotion and in NPI is somehow obstructed by the high complexity of decision making and processes execution in voluntary chains. Time-to-shopper and, therefore, time-to-break-even are higher than the average of the other retailers. This collaboration, anyway, produced an improved reciprocal comprehension and confidence, as well as a better understanding of the shopper by Coca-Cola and, above all, of the consumer by Interdis.

Lessons learned

Coca-Cola and Interdis (at the central level) are two companies with high marketing capabilities and ECR knowledge which have allowed them to develop a sophisticated consumer category management project. Such collaboration represents a best practice in terms of process, but not in terms of results (which have neither been measured yet).

On one hand, companies' internal skills represent the first enabler of ambitious ECR projects, but, on the other hand, it has to be supported by a shared collaborative vision along all the people directly and indirectly involved in the initiative.

Sometimes, as in this case, such shared vision lacks: because of the complexity of such organizational structures (as the voluntary chain) and because of the mistrust feeling embedded in the Italian contractual approach.

Even though the category management project gave very good results, the difficulties encountered suggest that it may be more efficient and effective an higher selection in choosing partners for ECR initiatives, preferring the ones who have the most suitable organizational structure, a deep knowledge of ECR themes and an adequate collaborative spirit.

C.4.4 Acqua e Sapone and Procter & Gamble

The partners

Procter & Gamble is a US based company producing quality brands marketed in over 50 countries across the world. From its start over a century and a half ago P&G has been famous for its consumer and brand focus. By contrast Cesar Barbarossa is a young company on its early 30ies, operating in central-southeast Italy and also focussing on its strong store banner (Acqua & Sapone) and shopper satisfaction.

The category & market condition

Most common categories (home and personal care) are mature. A&S has pursued with success a relatively new business model (Italian version of drug-store) that has fuelled channel and categories growth by enhancing shopping experience by exploiting the self-reward equities inherent to drug-channel categories.

Collaboration history

P&G has continuously supported A&S in this differentiation and category growth strategy. P&G recognized in A&S a partner that has a level of enabling elements in place that is unusual for small companies: from clear shopper based strategy, to information systems to organizational strive for collaboration and excellence.

Adoption status

ECR adoption for P&G and A&S did not follow a by-the-books flows. The companies started with shopper based initiatives, executed with excellence, learned, analysed and moved on to improved practices. By doing and learning right in the marketplace they discovered how much they could accomplished together and built a strong and trusting relationship. At this point they moved to advanced shopper research and project co-branding such as their cross category in-store enhancement project. The companies share information periodically and have mirror multifunctional teams in place. They state with confidence that they feel to be at the top quartile in term of enabling ECR elements in place and well ahead of industry in terms of added value operations to shoppers.

Accomplishments

Common category growth is at steady double digit, with market shares significantly above rest of Italy. But most importantly, shopper satisfaction, loyalty and bonding to A&S stores and to P&G brands, is constantly increasing. To quote some numbers: 60% of A&S shoppers come back to the store at least once a week. P&G and A&S are collaborating with innovative store enhancement projects in categories that account for over half of the store turnover.

The in-store solution is a best-in-class example of design that suits both the specific banner equities as well as the category benefits, as well as incorporating tools to fuel category education and reward to shoppers as much as to overcome shopping barriers.

Relationship between the two organizations is at top levels and will continue in a collaboration on innovation, banner differentiation and shopping satisfaction path.

Lessons learned

The companies learned that Banner Differentiation does work and that there is no better strategy to cope with current value eroding practices in the retail industry.

To accomplish this, though, a trusting relationship is a must, but not an instinctive asset. One of the two partners needs to instil it, but then trust requires constant nourishment from both parties. This is provided by doing and sharing more than by top-level visioning and mission statements.

One last key learning is that retailer size is not a limitation. A small company like A&S with such a strong banner and shopper commitment will multiply the worth of every manufacturer investment whether it is financial, organizational or of know-how.

C.4.5 Anonymous

The partners

The manufacturer involved in the study is a leading company of the food industry. The business of its Italian branch amounts to more than € 720 mio. Since '60s, the company has been confirming its relevance in the market extending its products/brands in several categories. The retailer is a voluntary chain.

The category & market condition

A sweets category in 2002 showed positive trends of growth (in value and volume). Hypermarket and supermarket account more than the half of the total sales (which are around € 490 mio) of the category. The category is driven, but not totally dominated by the international players. Beside them, good performers are also the private labels, the minor brands, and fair-trade products.

Collaboration history

Partners collaboration is focused on the demand side (no collaborative initiative are taken on the supply side). They have collaborated in more than one category obtaining positive and satisfying results.

Adoption status

Within it, they work better on some processes rather than others. For example, the best results were obtained for strategic alignment and shopper value creation, but even within such process there is not adoption homogeneity: whereas manufacturer's relationship with the retailer's head quarters is good, the ones with the single associated retailers suffer from a lack in ECR culture.

The retailer's head quarters' capabilities for marketing and CRM facilitate collaboration adoption and success. On the contrary, the lower alignment of the single retailers has a negative effect on assortments- promotions- and NPI-optimization.

Concerning logistics, the manufacturer has not a unique interface, but it has to deal with every single associated chains. Therefore, supply side collaboration is too complex to be managed efficiently. Consequently, there is also a lack of advanced standard codification for logistics and sales and just the basics (as EAN codes) are adopted.

Eventually, activity-based-costing was adopted by the manufacturer and the partners are planning futures project for CPRF.

Accomplishments

The supplier gained a deeper knowledge of shoppers and of retailer's marketing and logistic processes, which improved their relationship. Nevertheless, the economical results are ambivalent: the market share has grown up (both in value and in volume), yet the manufacturer's profitability through the specific retailer has reduced. On the other hand, the retailer not only improved its own relationships and contact facilities on the whole hierarchical lines of the supplier, but also obtained good economical results. ECR promotional activities driven by CRM leaned to very positive results, whereas performance in new products launches and in assortment management are lower than expected. This is partly due to the contractual policies and to the retailer fragmentation, which also drive higher listing costs as long time to shopper and to break even.

Manufacturer performance on logistics are very good in terms of orders delivered as requested (99,5%, +1,01% in the last three years), for inventory level (reduced from 42 days in 2002 to 31 days in 2004; -35,71%), and delivery time (from 120 to 72 hrs; -66,6%). These results are mostly due to the manufacturers' general logistic improvement, rather than to collaboration with the single partners.

Invoice accuracy registered more modest, yet positive results as well (93,5% totally correct invoices, with a 2,7% growth), as did the perfect order rate (88,31%, with a 1,5% growth from the previous year).

Lessons learned

ECR adoption costs. Therefore, it is necessary that company are ready to invest on a long term basis. Beside such willingness, there is also a structural requirement. When the category relevance is limited or when the dimension of the retailer is not adequate, customized processes management may be not economically sustainable.

C.5 Cases from Spain

C.5.1 Carrefour and Gillette

The partners

Carrefour hypermarkets (over 125 across the country) are the number one in hypermarkets in Spain and belong to the Grupo Carrefour España, which is the leader in Spanish retailing with more than Euro bn 8 sales.

With its brand Gillette Grupo Gillette España SL achieves over 81% of value sales in the razors and blades category and fills almost 84% of the shelf space allocated for this category in large-scale markets.

The category & market condition

In Spain, Gillette leads the razors and blades category, a sub-sector of men's wet shaving. They benefit from their well-established image among Spanish consumers as their innovative products combine added value of technology advances and skin care. Therefore the value-for-money concept of private labels is not a serious threat in the premium category, although the pressure on prices is steadily growing for standard disposable razors.

Collaboration history

In 2001, Carrefour started to discuss with Gillette about evolving to a collaborative relationship. They decided to collaborate in the supply chain and Gillette became a CRP supplier of Carrefour. While the commercial relationship was still more traditional, a regular information exchange started in the supply side, first manually before being automated via EDI. By 2003 the CRP pilot project rolled out to the whole assortment of Gillette at Carrefour. As the trust level increased, a stronger collaboration evolved. It is a common aim to further integrate demand and supply chain collaboration projects in order to strengthen the relationship between both companies in the future.

Adoption status

Most ECR concepts have been adopted so far by both companies. The initial focus on a responsive supply side and operational excellence results in an extensive adoption of ECR supply side concepts and ECR enablers. ECR demand side concepts are now part of the daily business of both companies, especially the category mindset. However, while the planning of assortment, promotions and new product introduction is a joint effort, both companies still desire to collaborate more intensively in the adoption and the evaluation of those concepts. ECR Integrators were not in the focus of past efforts, but are expected to be applied in future (e.g. CPFR).

Accomplishments

The conceptual and cultural change, from a competitive to a collaborative relationship, came along with a new kind of replenishment where information was exchanged regularly. As a result, the relation turned gradually into a win-win and trustful relationship where both companies perceive the benefits of ECR and are increasingly satisfied. Since the beginning of the collaboration the sales have increased every year. Moreover it allowed to reduce the stock level and increased the availability level of the products.

This presupposed that both partners build up capabilities to align their data and processes and thus got stronger knowledge about processes and understanding of the partner. It also intended to close the circle from the order to the invoice, allowing tracing products along the supply chain and setting the context to improve its efficiency. Moreover the mindset driven category management clearly improved the assortments, promotions and new product introductions.

Lessons learned

To walk the talk is an important step and requires a certain amount of trust as well as prepared resources on both sides to adopt the ideas. Pilot projects allow defining internal and external procedures and organizational settings which can be later scaled up to many suppliers/retailers. Furthermore it enhances the clear communication of joint benefits between the partners.

In order to evolve jointly it is important to have time to concentrate on "growing the cake together". The automation of information exchange (data) and analysis (e.g. KPI) allows having more time left to understand the partner and fosters the trust between the partners. In this context AECOC was important as it has defined common standards and has communicated the benefits resulting from such an information exchange.

Negotiation is an important part of the personal strategy realization of each of the partners; it is also an important prerequisite for the realization of any joint strategy.

C.6 Cases from Switzerland

C.6.1 Rivella

The partners

Rivella is a soft drink and fruit juice manufacturer providing mainly the Swiss market with a range of products. Throughout the past years, Rivella has strengthened its position as a number 2 in the Swiss carbohydrates market through several innovations. ECR projects have been conducted with small as well as large retailers.

The category & market condition

Manufacturers in the Swiss carbohydrates sector generate about half of their revenue in the food retailing channel: the other half is generated in the channel comprising the gastronomy and retailers specialized in drinks. In this market, the role of category captain is typically taken by the international market leader.

Collaboration history

In 2002, a demand side project was initiated in collaboration with a retailer. At the outset of the project, the retailer could not provide POS data. Yet, this barrier was overcome as the retailer conducted series of interviews with consumers. Following the data analysis, Rivella and the retailer jointly optimized the non alcoholic drink assortment in the stores and established the relevant processes. Along with another retailer, Rivella took steps to optimize the product availability in stores. To this end, the two parties agreed to establish a vendor managed inventory (VMI) in the retailer's warehouse.

Adoption status

In its supply side activities, Rivella has achieved a high level of ECR adoption, particularly in the domain of an integrated demand driven supply. It is one of few businesses that can already schedule its production for a product line with the help of information provided by a VMI system. Consequently, Rivella also scores high in the usage of common identification standards in the domain of ECR enablers. Activity-based costing is a controlling approach that Rivella has decided not to engage in to date.

Accomplishments

The deficiencies that Rivella addressed in its overall retail channel, rather than in selected relationships only, have particularly raised the efficiency of promotions. However, the major ECR-projects that focused on the relations with one retailer have been beneficial for the business, too.

As an outcome of a Category Management project, the partnering retailer could increase its market share in the mineral water category. Rivella's benefits were a better understanding of the processes of the retailer's processes and an additional listing of one of its own fruit juice variety.

While the Vendor Managed Inventory project increased the workload of Rivella, it also allowed an optimization of the production planning.

Overall, Rivella points out that especially the learnings from the projects are likely to present valuable assets for the further development of Rivella.

Lessons learned

Rivella's participation in ECR projects offers interesting learnings. First, in order to draw maximum benefit from a supply chain improvement project, manufacturers should seek to optimize the overall channel rather than optimizing an isolated relationship only. Second, if a manufacturer participates in a category management project, he must not have the objective of gaining more shelf space than is reflected by the true consumer demand. What may sound as a good opportunity for gaining shelf space quickly, would -in fact- hinder the development of a more long-term successful manufacturer-retailer relationship.

Third, Rivella is well aware that ECR should not be understood as a universal remedy, a business practice helping companies to master any managerial challenge. However, properly applied, it is a business practice that can help SMEs to improve the efficiency of their logistics and to raise the efficacy of their sales and marketing activities.

C.6.2 SPAR Group Switzerland

The partners

The SPAR Group Switzerland is a licensee of SPAR International. It is an independent, family owned company comprising over 140 outlets in Switzerland. In its frozen product category, SPAR Switzerland has engaged in ECR projects with the national groups of Unilever and Nestlé.

The category & market condition

Food retailing in Switzerland is dominated by two retailers, accounting for over two thirds of the market. Despite its size, SPAR often outpaces these two large competitors. The market share of SPAR in the frozen products category has topped 4%, even though SPAR holds an average 1.6% market share of food retailing in Switzerland.

Collaboration history

Until late 2002, frozen products of SPAR Switzerland were stored in a warehouse operated by a logistics provider. As the small SPAR outlets began to demand more frequent deliveries, there was a danger of significant fix-steps costs unless the supplies of frozen products would be reorganized. SPAR searched for alternative solutions. Following talks with Unilever Switzerland, it was decided to have the manufacturer operate a consignment warehouse for SPAR. This supply side project was complemented by a category management project for frozen products with the nearby based Nestlé Switzerland in early 2003.

Adoption status

In the frozen products category, SPAR has attained a high score in the optimization of assortments and promotions in the ECR Scorecard. So far, the optimization of new product introductions has not been focus of the retailer's ECR strategy in the past. Given its comparatively small market share, other demand side activities were regarded as more important first. Among the enablers for supply side projects, SPAR scores high with the exception of the usage of common identification standards in the frozen products supply chain. The technology would be available but its usage is omitted as the scanning of frozen products is difficult.

Accomplishments

Both, the supply side and the demand side projects proved beneficial for SPAR. Had SPAR further co-operated with its previous logistics service provider while increasing the delivery frequency to its smaller outlets, then distribution costs for frozen products would have risen at least 20%. Although SPAR has not measured the out-of stock rate on the shelves of its outlets, there is strong evidence to assume that the out of stock rate has decreased as a result of the increased delivery rate to the smaller outlets.

Similarly, the demand side project with Nestle led to significant improvements. Following the joint reorganization of the frozen category, sales growths in the ice cream and the convenience food category considerably exceeded 10%. Hence, even though SPAR has only adopted selected ECR practices to date, its demand as well as supply side projects have already proven very beneficial for the retailer.

Lessons learned

The ECR projects of SPAR Switzerland offer a number of lessons. First, by thinking in terms of supply networks rather than supply chains, comparatively small market players can enjoy significant efficiency gains, too. Consequently, the consignment warehouse solution leads to efficiency gains for a whole network of suppliers and retailers. Second, common standards are

highly important as enablers. Hereby, managers should check not for one, but two different kinds of standards. On the one hand, common data processing standards (EDI and software solutions) facilitated the design of the consignment warehouse solution. On the other hand, the project equally benefited from similar management processes in the picking, ordering and dispatching procedures of SPAR and its supplier. The match between those management aspects is an aspect that is often overlooked if managers only focus on common data standards.

C. 6.3 Manor

The company

Manor is a leading Swiss department store retailer. It operates over 75 department stores in Switzerland and maintains business relations with about 7000 suppliers. The national groups of Beiersdorf, Henkel, and l'Oreal are three suppliers that Manor has pioneered ECR supply projects with in Switzerland.

The category & market condition

Retailing in Switzerland is dominated by two food retailers that jointly have a market share of over 50% in the consumer cosmetics segment. One of these retailers predominantly sells private label products in his outlets. The branded cosmetics products in Switzerland, as provided by Manor, are marked by an enormous product variety.

Collaboration history

Until 2001, some of the key consumer cosmetics manufacturers delivered to Manor's department stores, others delivered to Manor's central warehouse. As the materials flows of the consumer cosmetics products were little bundled, logistics costs were high and product handling at the POS required significant resources. Following meetings at ECR Switzerland, Manor and its suppliers began to discuss the issue. Cross-docking was considered first but pilots showed that a VMI solution would fit the supplier-warehouse supply chain better, given the rotation of the products and the product variety. The VMI solution was piloted with Henkel as it had previously supplied Manor's central warehouse already.

Adoption status

Manor's strategy has been to establish joint standards such as EDI first. Manor then initiated supply chain projects, demand side projects have only been initiated in a third step. Given this strategy, Manor has particularly established enablers and ECR supply chain strategies to date. In the domain of integrators, Manor has gained a high level of costs transparency for the consumer cosmetics supply chain. Empowerment of employees in ECR projects is ensured through top-management support.

Accomplishments

The project has allowed Beiersdorf, Henkel and L'Oreal to lower their logistics costs as they deliver to the central warehouse rather than delivering to the department stores. Manor's warehouse now handles larger volumes in the cosmetics category, allowing the warehouse to decrease its fixed logistics costs per product handling. Manor does not need to place orders anymore. Although the out-of stock (OOS) rate has not been measured, there is strong evidence that OOS has dropped as a result of the project. Furthermore, Manor's department stores have benefited as they now receive a portable container with all the cosmetics products they require, rather than handling several deliveries a day.

Through the joint introduction of EDI and SSCC, Manor has generated knowledge that can be transferred to future projects in other supply chains of Manor.

Manor has demonstrated a capability of adopting challenging supply chain projects which makes it an attractive partner for future collaborations.

Lessons learned

Manor did not try to do it all at once. Instead, the department store retailer focused on enablers and supply chain collaborations first. It was found that a strategic collaboration between a retailer and a manufacturer is established more easily if the focus is placed on supply chain issues first. This domain of collaboration requires an exchange of less sensitive data and allows the partners to build up trust. Still, Manor emphasizes that it was a success factor to have sales managers of Manor participate in the supply chain projects. It points out that every ECR project demands knowledge in the management of supply as well demand - even though of the two may play a more important role in one project than another. Another success factor for Manor is methodological flexibility. Hence, Manor does not focus on adopting either VMI or Cross-docking projects only; instead it adapts its approach to the supply chain.

C.7 Cases from the UK

C.7.1 Kraft

The company

Kraft Foods is a global leader in branded foods and beverages with net revenues of more than USD bn 31. Kraft employs 100,000 staff operating in 68 countries worldwide.

Collaboration history

Kraft Foods UK embraced ECR in the early 1990's and today it is an intrinsic part of its business practise. ECR sets the framework to promote vertical and horizontal collaboration and a matrix for dissemination of the best available practices within the industry. Kraft actively participates in both national and European ECR initiatives. Kraft uses the full-level GCI-scorecard annually to internally benchmark and supplements this with complementary tools contained in Kraft Plus - a suite of demand and supply chain management processes and tools that can be utilised individually or as a total end-to-end process, from, gaining category insights and market knowledge through to efficient replenishment and assortment.

Since adoption of ECR, Kraft-UK have moved from disconnected ad hoc projects to continuous supply chain integration and collaboration through joint event management and joint business planning. This process enables Kraft to understand its priorities in terms of adoption of ECR initiatives. The following explains how Kraft identified the need for Shelf-Ready-Packaging on its Ready-to-Eat cheese products and the subsequent benefits. 10 years ago, the Ready-to-Eat cheese sector barely existed. Kraft Foods drove this category with innovation e.g. Dairylea Lunchables/Dairylea Dunkers. The Ready-to-Eat cheese category is now valued at GBP mill 178.

In 2002 store research showed high out-of-stock evidence, potentially costing millions in lost sales. Further shopper and operational research was commissioned to understand the root causes:

1. Shopper analysis - observation, interview and comparison to actions.
2. Store operations analysis – data, stock, sales etc and staff processes and interviews

A key consumer insight was shopper action when confronted by an out of stock, 54% of sales were lost forever. Operational root causes were as follows:

- Store employees found Kraft product cases too big (difficult to manage)
- Cases were hard to open (adhesive was too strong)
- Contents were prone to damage (generally not all stock could be merchandised)
- Product was difficult to merchandise (trays were too wide and didn't face consumer)
- Product could not be distinguished from every other brown box in the store room
- The fixture was not filled to correspond to demand

The key actions were:

- Reduce case sizes
- Introduce tear strips that worked (Shelf Ready Packaging)
- Make single tray facings

- Improve the case graphics, using all 6 sides
- Correspond fixture fill to peak demand time (pre 4pm for “Lunch Box Shoppers”)

Accomplishments

- Optimum amount of product on shelf (typically 20% less than prior)
- Store staff can easily identify Kraft cases and replenish more effectively
- Correct facings i.e. 1, 2, 3 or 4 (no longer the compromise between 2 or 4)
- Space for Kraft brands on fixture has increased (greater presence)
- Availability rates have increased by 2 percentage points
- RTE category continues rapid growth – double digit 2002/03/04

C.7.2 The Co-operative Retail and Coca-Cola

The company

The Co-operative Retail operates more than 3,000 high street outlets (mainly convenience) with an annual turnover of GBP mill. 800 – nearly 6% of the UK retail market share.

Collaboration history

The Co-operative Retail opted for the ECR paradigm in 2000 and so far has adopted various ECR practices such as Collaborative Planning Forecasting and Replenishment (CPFR) and Supplier Integration. The Co-operative Retail piloted the full-level GCI-scorecard – for the purpose of this study only on the supply and enablers sides – with regard to its relationship with the Coca-Cola Enterprise (CCE).

Adoption status (100 words max.)

The Co-operative Retail is still in the early days of incorporating the ECR enablers and standards. The company has identified the need for more sophisticated Information Systems and works towards that end. Enhancement and integration of new IT systems is part of a new business plan – the ‘Programme for Retail Change’. Quite the opposite, the company scores high on Automated Store Ordering and Electronic message for forecasting, planning and replenishment. This is due to the adoption of an award winning CPFR project which was kicked-off in March 2001. CPFR is a new-wave ECR instrument for optimising availability and stock levels through establishment of open relationship between partners in the supply chain. The key to CPFR is joint ownership of demand forecasts and stock replenishment. Since its inception the CPFR programme has evolved from a pilot of six suppliers to twenty-five suppliers – including CCE – and it has now become a standard working practice. The CPFR programme has been key to the development and success of the company’s business post-2001. The CPFR gives twenty-five key suppliers virtually unlimited access to the forecast plans, current stock levels in the RDC’s, stock in transit and supplier’s own performance levels with regard to a set of agreed KPIs. Access is via a secured web based system.

The main challenge in the adoption of CPFR was resource intensity and the need for more sophisticated IT facilities. The senior management was convinced that the standard CPFR approach did not suite the average suppliers, since they did not enjoy from the same level of resources as the larger suppliers. Hence, in January 2004, the ‘Collaborative Action’ plan was devised to ensure a structured approach to supplier relationships regardless of supplier size whilst supporting the Co-operative ethos. The methods successfully employed in the CPFR programme – with the top twenty-five suppliers – were rolled-out to incorporate the mainstream suppliers. In excess of 40 suppliers are participating in the ‘Collaborative Action’ programme with a prospect of more suppliers joining the scheme in near future. Although the ‘CA’ suppliers do not access The Co-operative Retail’s live web, forecasting and promotional planning have become shared processes. ‘CA’ Suppliers receive – forecast, stock level and stock-in-transit – information every week. In addition, tri-weekly face-to-face meetings are held to review the progress and plan ahead.

Accomplishments

For the twenty-five key suppliers working with CPFR the improved visibility resulted in a GBP mill 5 cost reduction in company’s costs – equal to 9% of supply chain costs or 1 day worth of

stock. The CPFR programme also improved in-store-availability by 2% and the average supplier service level by 1%. For CA suppliers, availability measures have gone up from the low 90% to 97%+. Also, some of the seasonal performance troughs have been flattened due to better collaboration. The benefits gained from both CPFR and Collaborative Action include: greater visibility of stock holding at both ends of the supply chain; advanced warnings of supply issues and preferential treatment in order handling and delivery and improved availability to store.

C.7.3 Gillette and Sainsbury's

The company

The Gillette Company is one of the largest consumer goods businesses worldwide with total annual turnover of more than USD bn 9. The company owns four major international consumer goods brands: Gillette, Oral-B, Duracell and Braun. The Gillette brand accounts for %75 of the global sales in the razors and blades category. The Oral-B brand holds the global leadership position in manual and power toothbrushes. Duracell, the most popular brand of alkaline batteries in the world, is the clear global leader in the growing alkaline battery market.

The categories

The UK is the second largest market for Gillette outside the US and the UK's five largest retailers Tesco, ASDA, Sainsbury's, Morrison-Safeway and Boots account for over 50% of Gillette total sales in this market. This case-study focuses on the one-to-one relationship with Sainsbury's in the grooming category.

Collaboration history

Gillette started its ECR journey, when it was first introduced to category management concept, back in 1995. Today ECR paradigm is widely adopted by Gillette and some ECR practices are part of Gillette's day to day business. ECR has broken down functional barriers within the company and enabled results focused collaboration internally between sales and logistics departments and externally with retailers. It must be noticed that although Gillette does many ECR activities such attempts are not always branded as ECR projects.

Gillette piloted its first GCI entry level scorecard project in late 2003 and adopted the intermediate GCI-scorecard with Sainsbury's in 2004. Gillette deployed the GCI-scorecard as a relationship health-check tool towards better customer satisfaction; at the same time, the scorecard was a means of measuring ECR adoption for the company. Gillette has considered rolling-out the scorecard across its customer base; however, not all retailers have been as equally enthusiastic as Sainsbury's. The scorecard project with Sainsbury's was timely since both parties were ready to move a step up the collaboration ladder. The GCI-Scorecard served as a diagnostic tool pointing to the main areas for improvement. The scorecard revealed differences in opinion with regard to different aspects of the relationship and helped to close the gap between the trading partners.

Adoption status

Gillette has a high level of ECR adoption with Sainsbury's. Gillette UK have marked themselves harshly in the area of new product introduction (NPI), as historically, centralized product development in the US limits the involvement of UK retailers in the early stages of NPI. In the latter case new plans are being piloted. In terms of shopper targeting, Gillette draws on the loyalty card data to launch more effective direct mail campaigns. For instance, Gillette effectively targets customers who regularly use Gillette razors and blades but not using the newly developed M3 Power razor. Similarly, the company performs below average in 'Transport optimization' and 'Efficient Unit Level'. This is mainly due to the fact that at the time there were no mutually agreed transport optimization targets with Sainsbury and both companies were focused on ensuring compliance to the new Sainsbury Supply Chain Dependencies. Gillette, generally, scores very high in the Enablers section where it makes use of the latest technologies. Above all, Gillette inc. is at the cutting edge of the industry in terms of RFID integration.

The main improvement opportunity identified from the scorecarding was 'optimised promotions'. From the Intermediate scorecard meeting with Sainsbury's, both parties agreed that promotional execution and efficiency was rarely monitored throughout the supply chain. The scorecard identified inefficiencies in the promotions in terms of planning, communication and execution. Although, Gillette's service level to depot was not always meeting Sainsbury's targets, this was not uniformly reflected in the level of service to stores. The actions devised to introduce an improved promotional process were:

1. Gillette and Sainsbury's to jointly map their supply chain, to understand the key drivers and enablers of the promotional process.
2. Develop and adopt a critical path for promotions. That was, a nine steps 'plan-do-check' agenda.

From this start point, Gillette held regular forecasting meetings with Sainsbury's, four weeks before a promotion began, to ensure:

1. Promotional uplift levels were agreed.
2. Secondary display and stock fill information were jointly agreed with Sainsbury's.
3. The amounts of pipe-fill stock required to optimise the secondary displays were agreed. It was sometimes agreed that Sainsbury's would bring in extra stock to give the promotion every chance at the start of a promotion, and any residual stock leftover at the end of the promotion would be jointly managed.
4. Orders were placed in time, for Gillette to deliver into Sainsbury's and for Sainsbury's to deliver into their stores.

Hence, if the above was completed successfully, it would ensure that there was enough stock in store, throughout the promotion from day one. Even prior to the promotional process review, Gillette had in place tactical third party merchandisers to assist with the requirements in Sainsbury's & other leading customers stores, during promotions. This improvement programme helped focus, fully optimise and align the merchandisers.

Accomplishments

The comparison of the in-store availability levels, during two similar promotions, pre and post collaboration gives a good indication. In some instances, beforehand, there was a poor and erratic level of in-store availability, especially at the start of promotions. The main issue, in this example, was – not having enough stock to meet the promotional uplifts hence – availability in store dropping dramatically 2-3 days into the promotion. By adopting the transparent joint promotional process the trading partners were able to ensure that the correct levels of stock were reaching stores.

"The increased focus on collaborative promotional planning has resulted in significant benefits for all stakeholders, the improved shelf availability throughout the entire promotion has resulted in average sales uplifts of between 10-15% higher, a win-win-win for the consumer, Sainsbury's and Gillette". (Senior National Accounts Manager)

Disclaimer

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