FICCI

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Creating synergies, erasing boundaries

When CPG companies and retailers collaborate, everyone wins

About Strategy&

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Strategy&'s India C&R practice works closely with organizations in the consumer goods, durables, and retail space to address their top-of-mind concerns as well as to drive their capabilities agenda. Our work includes addressing both strategic and operational issues that face the senior management across these organizations. Our consultants have consistently worked on cutting-edge business challenges and have helped frame solutions that build and sustain the "essential advantage" for our clients.

We are differentiated from our competitors in our ability to deliver implementable solutions to the client's problems, with clear benefits realization, while effectively leveraging our local and global expertise.

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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies. FICCI has contributed to this historical process by encouraging debate, articulating the private sector's views and influencing policy.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry.

FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs; FICCI enjoys an indirect membership of over 2,50,000 companies from various regional chambers of commerce.

FICCI provides a platform for sector specific consensus building and networking and as the first port of call for Indian industry and the international business community.

Our Vision: To be the thought leader for industry, its voice for policy change and its guardian for effective implementation.

Our Mission: To carry forward our initiatives in support of rapid, inclusive and sustainable growth that encompass health, education, livelihood, governance and skill development.

To enhance efficiency and global competitiveness of Indian industry and to expand business opportunities both in domestic and foreign markets through a range of specialised services and global linkages.

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Foreword

Dear Friends,

Welcome to Massmerize 2014.

Building further on last year's theme of adapting to multichannel consumers, we set out this year to explore ideas for creating enhanced value for shoppers. To do so, we examined the notion of collaboration between Indian consumer packaged goods (CPG) firms and retailers.

In the past, both sides have individually tried to address evolving consumer needs. However, challenges in the CPG and retail landscape — including declining margins and escalating operating costs — have made it necessary for the two sectors to explore alternatives to their traditional silo-based approach. Collaboration has become critical for firms interested in creating differentiated tactics that will meet shoppers' fast-changing demands.

Understandably, forging a closer working relationship raises tough questions, such as how the parties involved will share data, define and achieve common goals, and create an environment of trust so that collaboration becomes more than just a "one-off" initiative. Industry players that surmount these issues stand to make important gains — including deeper connections with consumers, improved processes, and enhanced revenues and margins. Early successes in India as well as elsewhere around the globe build a strong case for such collaboration.

The additional good news is that companies can find numerous significant opportunities to collaborate. For instance, CPG firms possess product- and category-specific knowledge as well as innovation capabilities that retailers can leverage to more effectively serve shoppers. Meanwhile, CPG firms can benefit from the goldmine of consumer insights that retailers have accumulated. Moreover, collaboration does not need to be restricted to only "shelf-forward" activities. Companies can implement it throughout the value chain. Examples include streamlining of "shelf-back" activities such as supply chain, logistics, and sales and distribution processes — all with an eye toward reducing costs and improving turnaround time.

Throughout Massmerize 2014, we intend to initiate discussions about collaboration between Indian CPG and retail organizations. We hope that the interactions you experience at the event, coupled with the insights shared in this document, help you identify meaningful opportunities for your own organization and in turn accelerate performance across both sectors.

Regards,

Kurush Grant
Chairman – FICCI FMCG Committee

Bijou Kurien
Chairman – FICCI Retail Committee

Executive Summary

In India – and indeed, in most emerging economies – the historical relationship between consumer packaged goods (CPG) companies and retail organizations has been largely transactional. The two parties have focused on compartmentalized objectives, such as haggling over margins or trying to extract lower prices or extra promotional funds. But consumer preferences are changing at a rapid rate, and organizations are dealing with more complexity than ever. Sales channels are proliferating; demographics are shifting; and consumers have increased access to information about companies and their products. In today's environment, the CPG and retail sectors are equally affected by economic pressures, dwindling margins, stagnating sales, escalating operational costs, and intensifying demands from ever more savvy and empowered consumers. It is difficult for any company to expect that consumer preferences today and tomorrow will remain stable.

Despite their differences, CPG firms and retailers seek to achieve similar objectives: increased sales, cost savings, optimized processes and systems, and happy customers. It will be much easier for them to achieve these objectives together, but to do so, both sides will have to adopt a new mind-set — one of playing for the same team. Collaboration will not only increase both parties' chances of success but also help create positive, enduring, industry-level changes such as longer-lasting relationships, improved industry standards, more sharply targeted offerings, and streamlined supply chain management.

Collaboration works. The experiences of leading companies across the globe as well as in India bear testimony to the step change that collaborative initiatives can bring. The primary benefits take such forms as revenue enhancements, cost reductions, process improvements, and customer satisfaction. The size of the prize is significant: In multiple cases, the companies involved have enjoyed 20 percent to 30 percent increases in category sales and 10 to 15 percent improvements in operating margins.

As indicated in a survey of leading companies conducted by Strategy& and FICCI during June and July 2014, CPG firms and retailers in India find the most value in collaborating on data-driven, shelf-centered activities. These activities include inventory tracking, product development, demand planning, data capture at point of sale (POS), and trade promotions. Our findings suggest that collaboration in some areas, such as the aligning of data systems, can lead to immediate, easy wins. In other potential areas of collaboration, such as category management and private labeling, companies will need to determine whether collaboration's gains will outweigh any risks in the long term.

But although some Indian CPG and retail companies are already collaborating on several fronts, lack of trust between the sectors has put constraints on many initiatives, with only 15 percent to 20 percent of collaboration projects meeting their objectives. Further barriers to collaboration include poor execution, planning, and technology capabilities.

Moreover, CPG and retail organizations are at different levels of maturity in terms of collaboration. A few have never attempted it. Most have tried ad hoc initiatives. And some are only beginning to adopt a more systematic, structured approach to working with the other side. Hence, there is a significant opportunity for companies to investigate collaboration more thoroughly.

For companies seeking to explore this opportunity, we recommend a phased approach — starting with establishing conditions for effective collaboration and then ensuring that it can be sustained.

Phase 1: Getting the basics right

- **Determine your collaboration "way to play."** Adopt a collaboration model that supports your strategic priorities. There are several models — Reactive, Proactive, Programmatic and Institutional — and they vary in terms of the time and effort required and benefits realized.

- **Segment and prioritize partners.** Select collaboration partners only after evaluating the possible impact on your revenues (size of the prize) and how well the prospective partner's strategic priorities align with yours (strategic fit). There are four partner segments: Key Accounts (partners that may generate large business and who share common goals), High Performers or Like-Minded Partners (who may make a good strategic fit or bring sizable business, but not both), and Bottom Feeders (who have poor strategic alignment and offer little value potential).

- **Gain top-level support, but organize for execution.** Find sponsors for your collaboration initiatives at the leadership level and establish accountability among teams at the ground level for execution of the initiatives. Think long-term business improvement rather than short-term sales enhancement, to foster buy-in for collaboration across the value chain. Ensure that each collaboration initiative has a clear set of owners and a governance body.

- **Align systems and processes.** With your partnering company, invest in cutting-edge technologies and create common processes and IT, with the goal of seamless integration and a shared view of data. To ensure smooth collaboration, set up common systems and back-end processes that can talk to each other.

Phase 2: Sustaining Collaboration

- **Establish and track joint key performance indicators (KPIs).** Identify and monitor metrics to assess progress on and results of each collaboration initiative. Address any problems that arise.

- **Jointly invest in data analytics.** Use insights from analysis of consumer data to predict demand and direct R&D investment, improve marketing, and maximize supply chain efficiency. The goal: drive profit for both sides.

- **Build a culture of trust and transparency.** Conduct up-front conversations with your partners on the benefits, costs, and objectives of collaboration. Motivate and reward behaviors that foster trust, such as transparency of data and adherence to agreed-upon processes.

- **Partner with government agencies.** Liaise with government agencies to encourage government to help create an environment that supports collaboration and growth of the two sectors; for example, by boosting investment in warehousing, implementing a goods and services tax (GST), and granting industry status to the retail sector to facilitate industry growth and encourage investment in the sector.

Viewing collaboration as a joint growth opportunity will be critical for Indian CPG and retail organizations' survival in the future. However, adopting this mind-set will take time and effort. Companies can travel that journey — and start reaping the benefits — by moving to erase boundaries, harmonize their objectives, and work together to create synergies that benefit both.

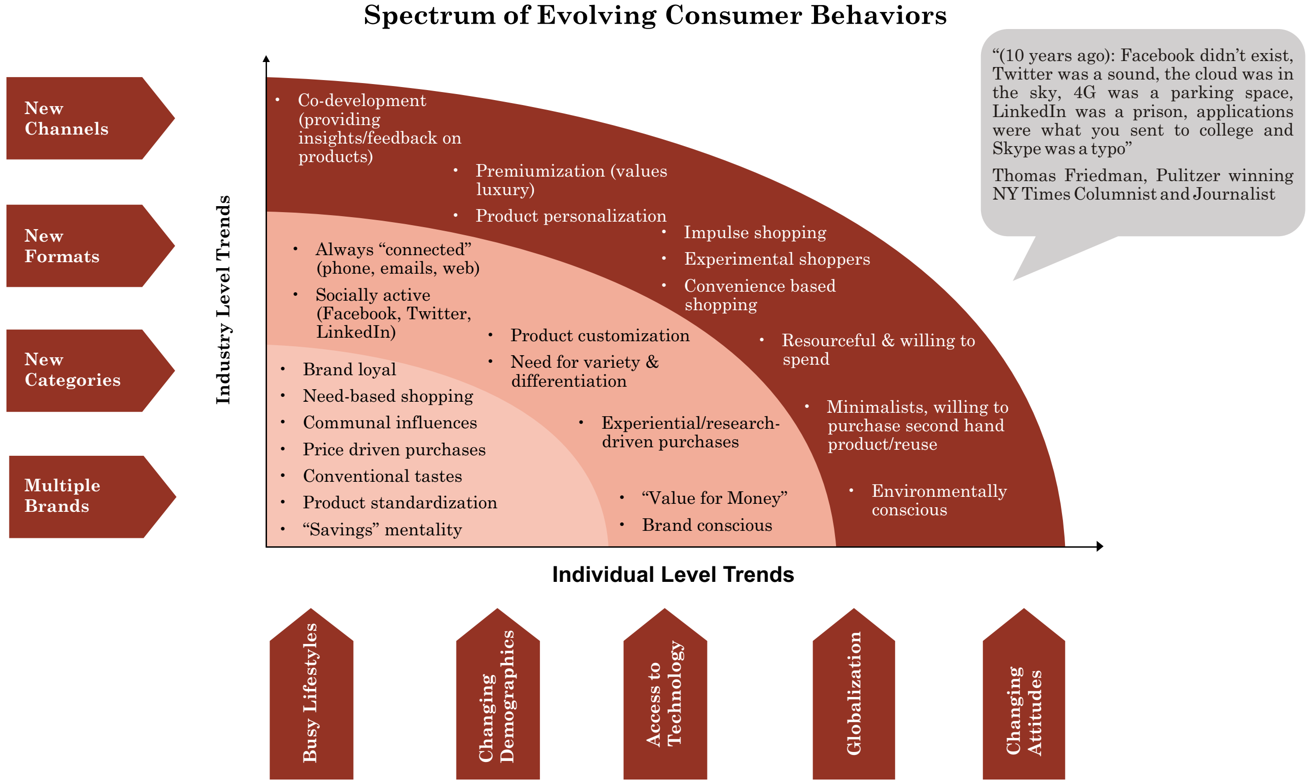
The Case for Collaboration

The tug-of-war between CPG firms and retailers over margins and shelf placement has dragged on for some time now. The rift made headlines when Future Group, India's largest retailer, pulled all Kellogg's cereal brands off its shelves in 2010. The Economic Times explained in one article, "While marketers refused to increase margins on popular brands, retailers retaliated by launching a series of products under their own brands and giving them more shelf space and pricing them lower than established competition."[1]

As CPG firms and retailers continue to circle each other warily, Indian consumers have not waited for the combatants to settle their scores. Consumers have begun demonstrating marked changes in their buying behavior — owing to industry-level trends such as the introduction of new channels, formats, categories, and brands, coupled with the impact of busy lifestyles, demographic shifts, increased access to technology, globalization, and new attitudes toward saving *(see Exhibit 1)*. Moreover, Indian shoppers' preferences show remarkable diversity, with consumers seeking differentiation, personalization, variety, convenience, standardization, and value for their money all at once. This is true whether consumers are browsing in a kirana (stand-alone neighborhood retail store)

Exhibit 1: Changing consumer behaviors in India

Changing industry and individual level trends are influencing the way consumers shop



Source : Strategy & analysis

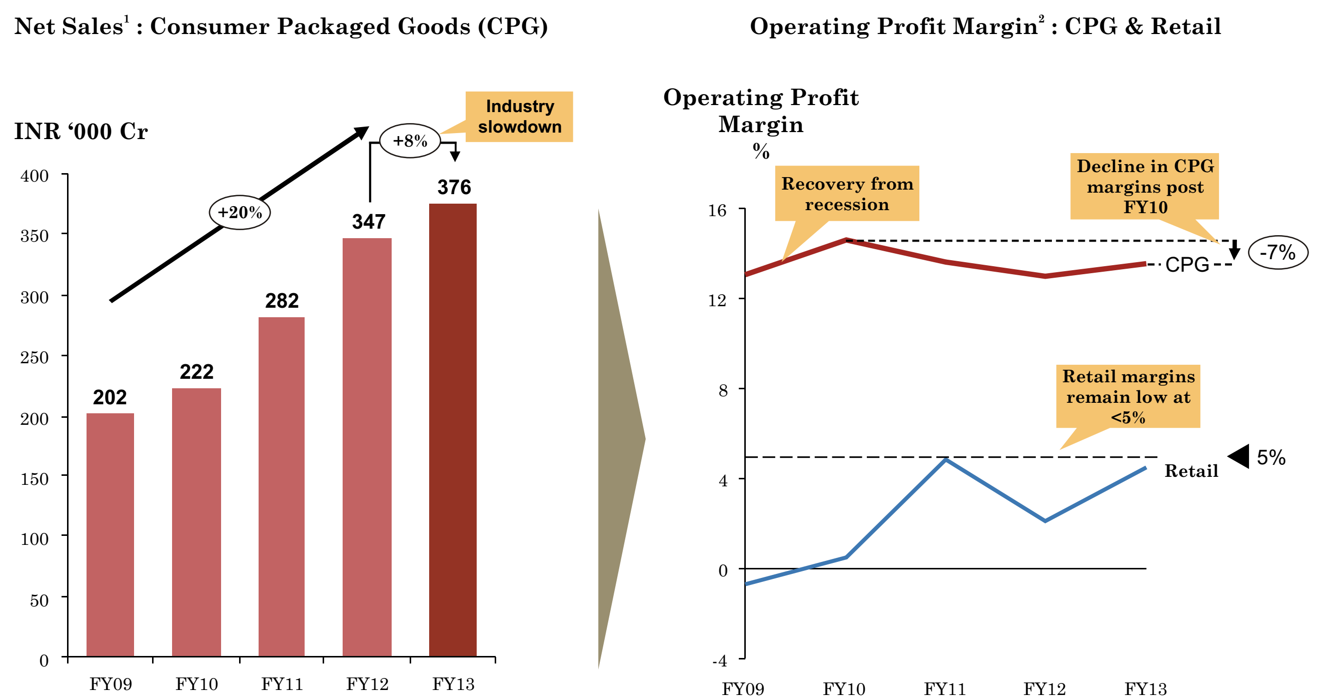
or a supermarket chain or making purchase decisions on a laptop or mobile device.

With these changes transforming the competitive arena, CPG and retail firms can no longer expect to win the consumer game in isolation from one another. Companies in both sectors must acknowledge and respond effectively to the new complexities. Equally important, they need to differentiate themselves in a highly competitive and fragmented landscape characterized by widely varying national and international CPG firms, more than 30,000 modern trade stores, 8 million-plus traditional trade outlets, and multitudes of rapidly emerging e-commerce players.[2]

Further, the recent slowdown in the Indian CPG industry is putting additional pressure on firms' already shrinking margins. CPG margins have steadily declined since FY2010, when the industry recovered from a growth slump caused by the global recession. Retail margins have slightly improved but still remain below the 5 percent mark *(see Exhibit 2).*

Exhibit 2: CPG and retail margins

Decelerating industry growth adds pressure to declining CPG and low retail margins



1) Total net sales of 107 consumer packaged goods companies have been used to arrive at YOY net sales for the consumer goods industry

2) Weighted average of 107 consumer and 14 retail companies has been used to arrive at Operating Profit Margins for the respective sectors

Note: CPG refers to Consumer Packaged Goods. INR = Indian rupees. Cr = Crores or 10 million.

Source: Company financials, AceEquity, Strategy& analysis

Given the dual challenges of catering to changing consumer demands and sustaining growth in a difficult environment, companies in both sectors need to start working together. Different kinds of collaboration — such as sharing consumer insights, creating processes and systems that talk to each other, and designing meaningful interventions at the shopper and CPG–retail interaction levels — can create revenue and cost synergies that help improve both parties' margins, as witnessed in multiple projects that Strategy& has conducted globally.

Strategy&, in association with FICCI, recently conducted a survey of leading companies in India's CPG and retail space to explore the extent and further opportunities of collaboration. *(See "About our research," page 42, to learn more about our research methodology.)* Our research indicates that although companies in both sectors agree that collaboration can help them optimize resources and arrive at valuable consumer insights, each believes that the other should work to improve efficiencies. The reason may be that their relationship has historically been largely transactional in nature. That is, each party has focused on small, short-term gains such as extracting better pricing or promotion terms, rather than longer-term strategic gains such as collaborating on product innovation to boost revenue or market share for both parties. CPG firms and retailers must work together to overcome this transactional mind-set and address challenges jointly. When they do, they will create value for consumers as well as open up decidedly new win-win opportunities for themselves.

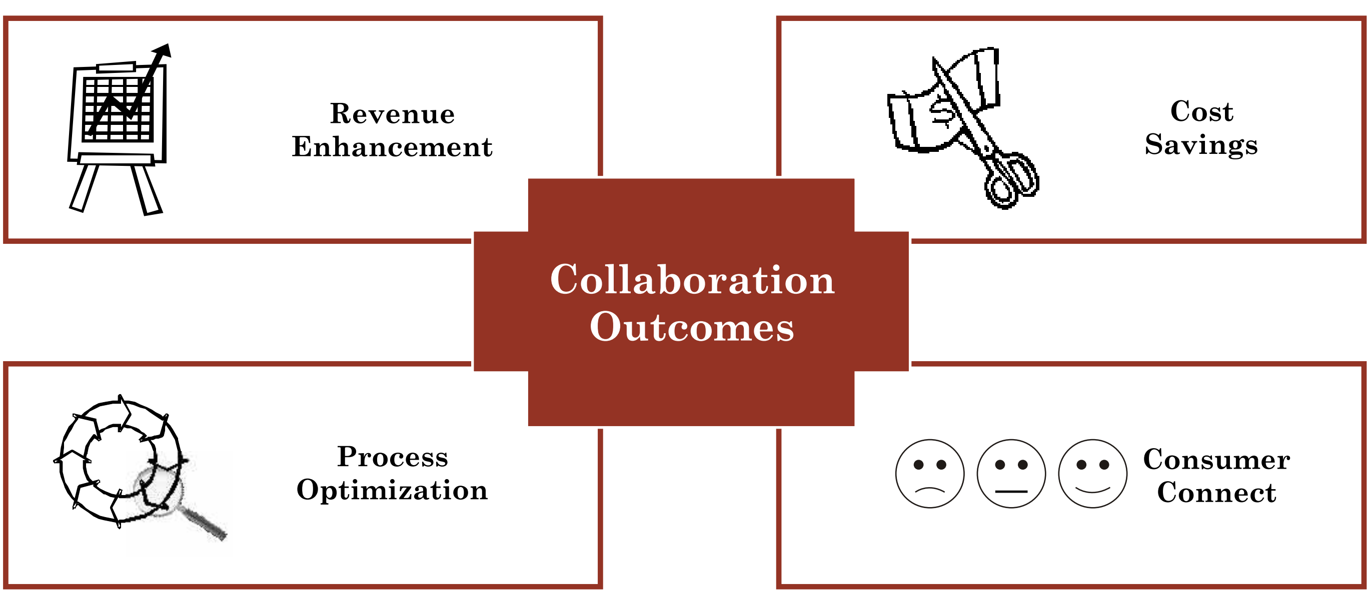
To forge a collaborative partnership, players in both sectors need to understand — in explicit terms — the value they can derive from working together. A retailer, for instance, would likely be unwilling to share category-level data with a CPG firm unless the firm promised something in return — such as helping to optimize the retailer's product mix to increase category sales. Establishing targeted benefits up front is the best way to build the trust so essential for successful collaboration.

Benefits of collaboration

Collaboration can drive benefits for CPG and retail companies in four key value levers *(see Exhibit 3)*. In the sections that follow, we take a closer look at each lever.

Exhibit3: Benefits of collaboration

Collaboration positively impacts value levers – revenues, costs, processes and consumer connect



Source : Strategy& analysis

Revenue enhancement

CPG firms and retailers can harness their complementary capabilities and knowledge to grow revenue by increasing penetration of core products, driving more traffic into stores, and collaborating on co-branding opportunities. For some companies, improving the top line may be as simple as marrying a CPG firm's category-specific insights to a retailer's in-store execution capabilities to drive higher targeted sales. Consider the partnership between Unilever and Migros, one of Turkey's largest retailers. The two companies collaboratively used consumer insights to drive sales of hair conditioner. Through an in-store survey, they identified the top reasons for shoppers to decide against buying hair conditioner, such as the belief that they did not need the product or that conditioners were too expensive. Armed with these insights, the companies reallocated shelf space to place shampoos and conditioners together, to encourage shoppers to see conditioner as a necessary companion to shampoo. Further, the companies invested in price promotions for conditioners. Migros' overall hair conditioner revenue grew by 25 percent; that of Unilever, by 36 percent.[3]

Cost savings

CPG–retailer collaboration can open up a wealth of cost-reduction opportunities through such means as streamlining distribution and merchandising operations, improving inventory management, and reducing stockouts. Take Boots, the U.K. health and beauty retailer and a leading manufacturer of hair accessories. The company came up with an innovative color-coded product display that improved how the products were showcased as well as saved the retailer 45 minutes of setup time, reducing overall time for store rebuilds from eight weeks to just two, and drastically decreasing labor costs.[4]

Process optimization

Standardization of processes, systems, and data significantly enhances process efficiencies for both CPG firms and retailers. For example, standardization can reconcile differences in master data at both ends that cause incorrect orders, shipping delays, and inconvenience to shoppers.

Moreover, improvements to existing processes have even more value if checks and balances are put in place to ensure compliance from the CPG firm and the retailer. Gillette and Tesco, for instance, collaborated to reduce shrinkage and stockouts. The companies introduced multiple initiatives to create robust processes and governance mechanisms, including secured product movement, controlled replenishment, and regular reports of stock-loss results. In-store stock-loss levels on Gillette blades and razors decreased from crisis levels to less than 2 percent, and both manufacturer and retailer saw a dramatic improvement in profits.[5]

Consumer connect

A great way to create targeted offerings and increase consumer satisfaction is to analyze POS data to gain insights into shoppers and their needs. Kellogg Company and Tesco discovered this firsthand. The companies undertook a joint initiative to identify purchase patterns and improve their offerings to address increasing consumer discontent over frequent stockouts. Through this analysis, they learned that most stockouts for Kellogg occurred midweek, during the afternoon. Consequently, Kellogg adjusted its shipping schedules to ensure on-time delivery of product. The move improved consumer satisfaction levels at Tesco and enabled the retailer to recover more than US$4 million in lost sales.[6]

Spotlight on Indian Firms

In addition to the companies cited above, leading Indian firms have taken steps toward collaboration and have begun realizing benefits. As Godrej Consumer Products Ltd. stated in its 2013–2014 half-year communication, "We are strengthening relationships with our modern trade partners through joint business planning and setting up Electronic Data Interchange (EDI) interfaces to automate the exchange of data. Our modern trade channel grew at 28% during the first half."[7]

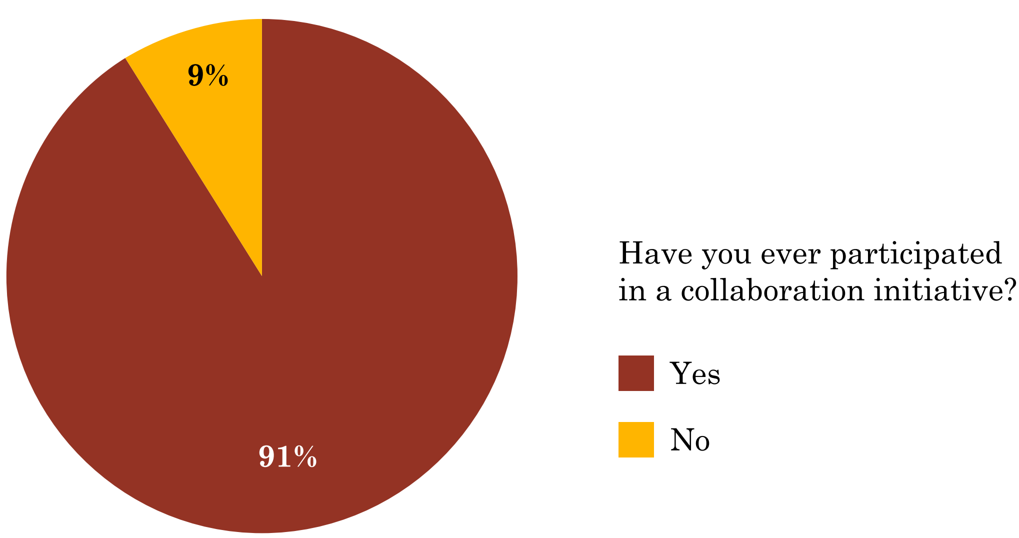
Aditya Birla Retail also highlighted the collaborative relationships it has built with CPG firms. In an interview with DNA India, then-CEO Thomas Varghese noted, "Whether it's Unilever, whether it's Godrej, or Pepsi, or Coke, or Nestle and Marico, we have a clear goal. We meet twice a year; we review the joint business plan. So, unlike retailers who have been fighting with CPG firms, we have started a very strong collaboration with them, to co-create value for both our businesses, and that's working well."[8]

Further, Indian CPG manufacturing companies such as Hindustan Unilever Limited (HUL), Dabur, ITC, Marico, and Coca-Cola have heavily invested in developing upskilling programs that help traditional retailers train their employees in specialized skills, such as operating credit card machines, maintaining inventory logs, and creating attractive merchandise displays. The goal is to initiate a dialogue with traditional stores, which make up 90 percent of India's retail landscape — a percentage that remains untapped in terms of proactive collaboration. Thanks to such initiatives, these companies have successfully reached thousands of traditional retailers across the country.[9]

As much as 91 percent of our survey respondents reported having participated in at least one collaboration initiative *(see Exhibit 4)*. However, many CPG firms and retailers in India have attempted collaboration as a one-off effort. Thus there is still substantial room to practice collaboration in a more sustained, systematic way. In particular, both CPG firms and retailers in India can create a shared view of common opportunities and challenges they face. And, as indicated by the success stories discussed above, the size of the prize can be well worth the effort.

Exhibit 4: CPG - retailer collaboration in India

91% of survey respondents indicated that they had participated in at least one collaboration initiative



Source : Strategy& analysis

But to capture the prize, both parties will need to see collaboration as an approach encompassing all aspects of getting the right product to the right consumer — not just an activity that they perform once or sporadically in just a few parts of their business. To adopt this more systematic approach, companies must jointly invest in R&D, supply chain management, sales and distribution, and marketing initiatives. In the next section, we investigate such collaboration opportunities in greater detail.

Opportunities for Collaboration

Most leading CPG and retail companies in India recognize the benefits of collaboration along the value chain, and some have already begun investing in it. Our recent study identified areas where executives foresee the best returns from cross-sector collaboration *(see Exhibit 5)*. Our findings suggest that collaboration opportunities across the value chain can range from co-creation of products, joint logistics and inventory tracking, improved forecasting models, and better data capture to targeted selling and in-store communications, e-commerce portals, multichannel marketing, and promotional activities. Below, we examine some of these more closely.

Exhibit 5: Collaboration opportunities across the value chain

Leading CPG companies and retailers foresee opportunities of collaboration across the value chain

Potential Areas for Collaboration Across the Value Chain		
Area	**Opportunity**	**Description**
R&D	• Product Development	Innovation and/or Investment Sharing
Supply Chain & Logistics	• Inventory Tracking & Management • Joint Logistics	Real Time Stock Movement, Master Data Management, Automated Replenishment etc. Sharing of Warehouses, Trucks, Distributors
Sales & Distribution	• Demand Planning/Sales Forecasting • Data Capture at POS • Up-skilling of Customer Facing Staff • E-commerce	Target Setting, Resource Requirements, Issue Resolution etc. Consumer Insights, Compete Information, etc. Training Programs for Retailers' Staff/Distributors' Feet On Street/Own or Outsourced Sales Personnel Exclusive Offers/Products available via Trading Portals
Marketing	• Digital Marketing • Traditional Advertising • Trade Promotions	Campaigns across Websites, Social Media, Apps Campaigns on TV, Print Media, Radio In-store Displays, Price Reductions, Contests, Rebates etc.

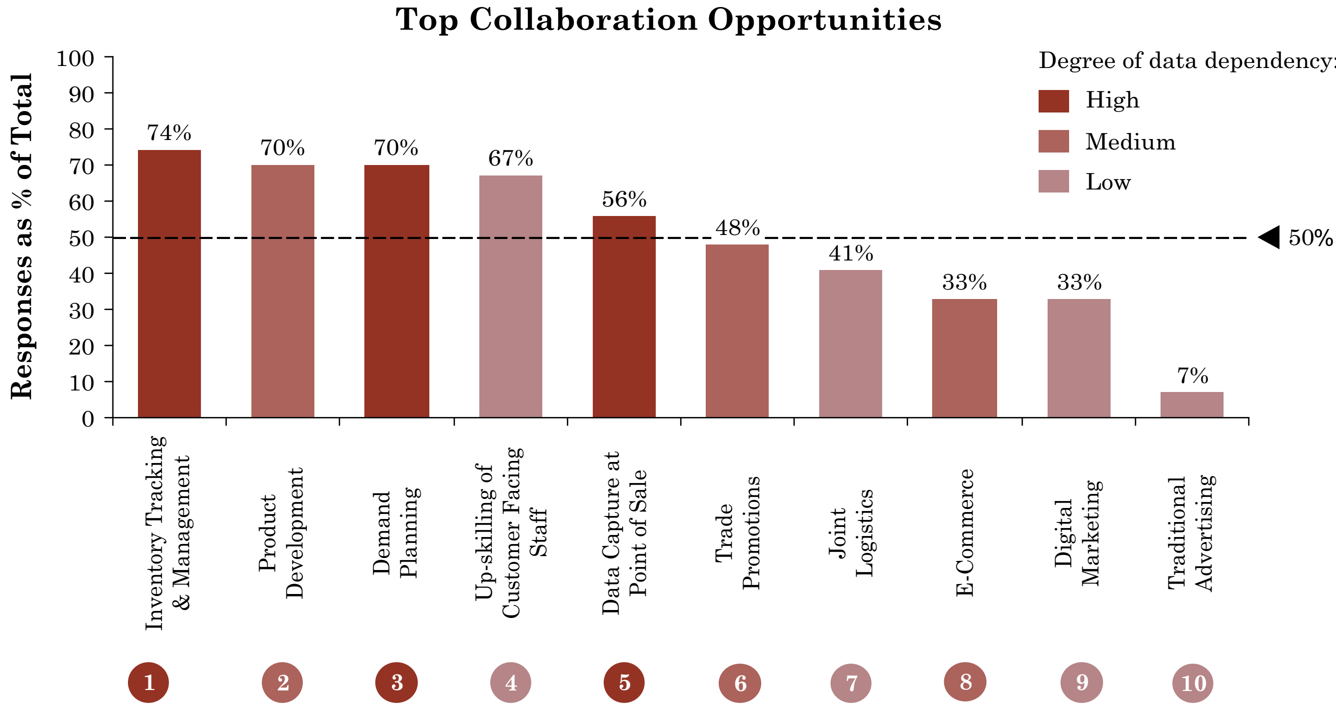
Source : Strategy& analysis, Interviews with industry leaders, Strategy& survey conducted in association with FICCI (June-July 2014)

Focus on Data-Driven Activities

We are living in the era of data-driven value chains. Almost all areas of collaboration depend on the quality and accuracy of data, albeit to varying degrees *(see Exhibit 6)*. The reason is simple: Better access to data can help CPG firms and retailers remove bottlenecks in their supply chain, which in turn creates maximum value for consumers.

Exhibit 6: Data-driven activities as top collaboration opportunities

As per the Strategy& survey conducted across leading Indian firms, data driven areas are a top priority for collaboration



Source : Strategy& survey conducted in association with FICCI (June-July 2014)

Areas such as inventory tracking, demand planning, and POS data capture rely heavily on data gathered by sales teams. Yet data-driven collaboration should not be restricted to sharing sales numbers and interpreting stock movement. It can also include sharing insights on market trends and consumer buying behavior. Indeed, our survey respondents said that such sharing could lead to better idea generation around products and trade promotions as well as savvier use of e-commerce platforms.

CPG and retail firms with better access to sales data and consumer insights can also collaborate more effectively on activities including developing and executing upskilling programs, managing logistics, deploying digital platforms, and designing traditional media campaigns.

Successful collaborations

During our research, we unearthed successful collaboration initiatives, by companies in India as well as in other countries, in the focus areas cited by the Indian companies that participated in our study. In the sections that follow, we describe these initiatives and consider their outcomes.

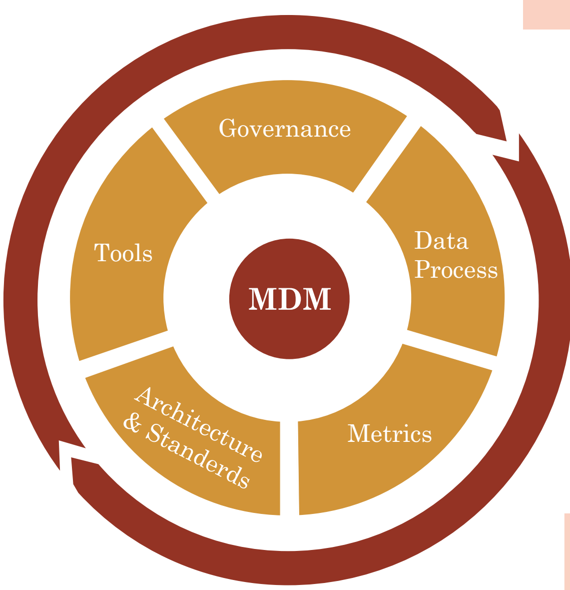
1 Inventory tracking and management

Robust inventory tracking systems enable companies to streamline the entire order-flow process — from production to sale — by managing inventory levels at various touch points in between (distribution centers, warehouses, and manufacturing facilities). Accurate data is a prerequisite for successful inventory tracking and a major area of concern for Indian companies owing to the lack of data availability and standardization. SKU codes used by a CPG firm, for example, may differ from those used by a retailer because the two companies' technology systems are not synchronized. Results of this misalignment include order-processing mistakes, annoyed customers, and extensive time and effort expended to correct shipments. Collaboration on master data management (MDM) to synchronize disparate data sets can therefore help CPG firms and retailers realize better efficiencies. MDM must be carried out holistically *(see Exhibit 7)*, with strong governance mechanisms, metrics, process, standards, and tools to ensure a single version of "the truth."

Exhibit 7: Approach to master data management

Master Data Management must be approached holistically to ensure a single version of truth across CPG firms & retailers

Governance
- Master data control policies & organizational accountability
- Measuring and monitoring metrics.
- Governance metrics linked to business performance (effort, productivity).



Data Processes
- Procedures and automation for a single version of truth.
- Audit and traceability into the process.
- Support of data quality initiatives, such as classification, cleansing etc.
- Procedures to capture data quality metrics.
- Industry best practices for data cleansing.

Metrics
- Objective metrics that define the performance of governance mechanism e.g. audit efficiency, non-compliance, audit effort , defect prevention ratio etc.

Architecture & Standards
- Industry standard architecture practices
- Data standards

Tools
- Scalable infrastructure to support selected architecture.
- Tools across data quality, data integration and metadata technologies
- Process automation and integrated governance.

Source: Strategy& analysis

In addition, inventory tracking mechanisms that have been used successfully outside India, such as bar codes, labeling, and RFID technology, have not yet been uniformly adopted across all retail channels in India. This is owing to inadequate standards and compliance mechanisms across the distribution landscape. The result is significant inventory losses for CPG firms because they do not have end-to-end visibility into their products.

Indian firms may look to Sears for inspiration. The large U.S. retailer was unable to accurately track inventory despite a well-defined mechanism for labeling individual products. The company realized that without setting uniform printing standards and penalties for those that chose not to conform to the standards, it would be unable to achieve a high rate of compliance. It launched a quality assurance program to train retailers and suppliers in identifying incorrect labels and incorrectly labeled product returns.[10]

Sears institutionalizes quality assurance programs for labels to improve inventory tracking

Sears is known worldwide for its quality assurance program in printing barcodes and labels. Its program is called UCC128 Rehab and is known to have a near to 100% compliance rate.

The program follows a three-point agenda to improve inventory tracking:

- Labels and barcodes have been standardized by partnering with a third-party service provider (Bar Code Graphics Inc.).
- Suppliers as well as retailers are trained to identify, report, and correct defective problems at different points in the supply chain.
- Upon receiving non-compliant labels/bar codes, retailers are encouraged to refuse shipments or levy chargebacks to the supplier.

By proactively identifying quality problems, Sears has been able to significantly improve acceptance rates and better manage inventory, saving time and reducing costs.

Source: Zebra Technologies, whitepaper on "Quality Assurance Steps for Preventing Label Printing Problems," 2003.

2 Product development

Owing to their position in the value chain, many CPG firms lack the direct connection with consumers that retailers enjoy. But retailers often lack a structured process and technologies for making sense of their consumer data and using it to differentiate themselves; for instance, by stocking products that their customers need, when they need them. We think of these two seemingly disparate imperatives as a single opportunity: creating a product or a brand that consumers want.

One way to create a unique product is through co-branding. By creating co-branded products with leading CPG firms, retailers can gain access to best-in-class R&D mechanisms and marketing prowess. CPG firms, for their part, can invest in creating a product informed by consumer insights obtained straight from the point of sale. That can boost such offerings' chances of success, which can translate into higher category sales for CPG companies.

Leading companies around the globe and in India have begun exploring co-branding. For example, American CPG giant Procter & Gamble decided to partner with U.K. retail leader Tesco to create exclusive flavors for P&G's popular brand Pringles, which would be sold only at Tesco outlets in the U.K.11 Meanwhile, India's Future Group and Hindustan Unilever have plunged more deeply into co-branding. The two companies announced a partnership in 2011 to co-develop and co-brand an entire line of bakery products to be sold exclusively at Future Group's Big Bazaar outlets.[12]

HUL and Future Group partner to co-brand bakery products

The FMCG company Hindustan Unilever (HUL) and retail chain Future Group announced a partnership in August 2011 to co-develop and co-brand a line of bakery products to be sold exclusively at Big Bazaar stores.

The bakery products will sport both Hindustan Unilever's 'Modern' and Future Group's 'Freshly Baked' brands on their packaging.

Both companies are leveraging their core strengths in creating this line: HUL's strength is its ability to make good bakery products as well as to distribute them nationally, while Future Group has the largest network of stores across India.

Source: The Economic Times, "Hindustan Unilever, Future Group to co-brand bakery products, items to be sold at select Big Bazaar stores," August 22, 2011.

Product development need not pertain only to co-branding. It can also encompass packaging. For instance, drawing on retailer feedback, a leading Indian personal care company repackaged a brand of hair color in economic, easy-to-display sachets that could be offered at drastically reduced prices. The new product disrupted the market by outpacing sales of comparable hair-dye products.

As such examples demonstrate, collaboration on product development can deliver manifold benefits to both CPG businesses and retailers — including cost reductions as well as the ability to charge a premium for exclusively developed products.

3 Demand planning

Collaboration on demand planning enables CPG firms and retailers to set realistic targets, meet market demand, and minimize stockouts. Multiple companies have taken the initiative to extend demand planning sessions to joint business planning discussions, and they have reaped benefits, including better in-store product availability and ideas for additional collaboration opportunities across the value chain.

Leading Indian CPG firms such as Godrej Consumer Products and Aditya Birla Retail's More stores have begun to invest in joint business planning as a way of working with their partners.[13] As an increasing number of firms look to collaboration, emulating successful practices adopted elsewhere in the world can be a good place to start.

A leading U.K. retailer, for instance, engaged in collaborative business planning with a global market leader in oral care *(see Exhibit 8)*. The companies took a "one team" approach that began with a monthly meeting between the enterprises' leadership teams to discuss short- and long-term opportunities. Key opportunities emerging from these meetings ranged from improving fill rates to increasing on-shelf availability and creating targeted promotions. The partners also used the monthly meeting to review performance of their collaboration initiatives as well as agree on service levels and benefit sharing up front.

Exhibit 8: A "One Team" approach to business planning

A leading retailer collaborated with a market leader in the oral care space, adopting a "one team" approach to demand planning

Following extensive understanding of each other's supply chains, a leading retailer and an oral care company setup a collaborative process initiated by a monthly collaborative planning meeting to discuss improvement opportunities across the value chain.

In the monthly meeting:

- Performance of the previous weeks was reviewed and upcoming weeks are planned for
- Promotions and range changes were finalized
- Service levels and benefit-sharing models were mutually agreed upon

The initiative has led to:

- Higher order-fill versus rest of category
- Protection of retailer and supplier margins
- Improvement in on-shelf availability
- Reduction in inventory levels
- Effective demand planning

Source : Secondary research

4 Upskilling

To remain competitive, kirana store owners are modernizing their retail shops — creating more effective product displays, improving store hygiene, and modifying layout to make it easier for customers to quickly find and select products they want. Leading CPG firms are contributing to these efforts by investing in upskilling programs for these retailers. HUL's Super Value Store (SVS) program is a prime example.[14]

HUL's "Super Value Store" program

To enhance sales through the traditional retail channel, HUL launched the "Super Value Store" program, whereby it equips traditional retailers to create self-service outlets, directly competing with modern retail chains.

The major challenge has been to get shop owners to invest upfront in upgrading their shops. For those who choose to participate, however, HUL creates lucrative schemes, offers branded merchandise, and provides consultancy services on how to "modernize" outlets through product display prioritization, inventory management, and restructuring of store layouts (counters were converted to a U or L shape so shoppers could move around them and select items easily).

The program has been launched across 70 cities, with participating stores reporting up to a 120% increase in turnover.

Sources: agencyfaqs, "In-Store Asia 2008: Empower the nano retailer to create a retail revolution," February 4, 2008.
Business Standard, "FMCG firms ally with kirana stores," September 30, 2007.

Upskilling programs face several challenges, including the fragmented nature and sheer scale of the Indian traditional retail landscape. To surmount those challenges, companies need to design innovative programs. One such program is the Parivartan initiative launched by The Coca-Cola Company.[15]

Coca-Cola University launches the "Parivartan" program

The Coca-Cola Company has institutionalized training programs through the Coca-Cola University. "Parivartan" for kirana shop owners is one such training program conducted by the university. The program trains participants in modern selling and storage techniques

The Parivartan concept is unique in that it entails mobile training – extending classroom training to buses. A customized bus with basic training amenities such as seating area, presentation zone, audio-video, and on-board trainers becomes a mobile workshop that can train 25 people in one sitting. The initiative has been especially valuable for reaching out to people in rural and semi-urban areas and training them on various retailing methods and tools.

Under this program, Coca-Cola has already trained more than 100,000 retailers across India.

Source: Coca-Cola India Press Release, "Mr. Muhtar Kent, Chairman & CEO, The Coca-Cola Company meets retailers in Agra on his visit to India attends a retailer training session conducted in the city by the Coca-Cola University under the Parivartan program," June 27, 2012.

CPG firms' distributors can also serve as intermediaries that facilitate collaboration with traditional retailers. Panasonic's Partner Program bears testimony to this "train the trainer" approach. Through the program, Panasonic introduces system integrators, stockists, and resellers to new products, business opportunities, and special commercial offers. These middlemen can then use their new knowledge to push sales independently with retailers, enabling Panasonic to build up its channel community.[16]

Upskilling programs may also be scheme-specific, as Murray's, the well-known cheese manufacturer based in New York, found out. In Kroger supermarkets, a promotional campaign placed Murray's branded cheese kiosks. Kroger employees who worked in the kiosks were put through Murray's "red jacket" training in New York; their cheese-carving skills apparently helped the kiosks significantly increase sales.[17]

5 POS data capture

When it comes to the retailer's shelf, the competitive landscape is shifting. New capabilities are redefining how CPG firms and retailers work together to win a bigger share of consumers' wallets. Central to this shift is the ability to use POS data to determine how to go to market, execute strategies, and manage product availability. Driving the right behavior in the workforce, through performance measurement and incentives, to build retailer relationships and effectively capture POS data will be critical. The use of real-time POS data, especially when managed according to clearly articulated strategies, is reshaping how decisions are made today in the CPG industry *(see Exhibit 9)*.

Exhibit 9: Questions for effective POS data capture

Key questions must be answered around POS strategy for effective data capture

What is the strategic agenda? • **Business goals** • **Decision-making criteria**	Which decisions to make?	• Planning insights • Real-time performance monitoring • Evaluation • Settlement
	With what data, from which sources?	• POS (direct, third-party) • Syndicated consumption and panel data • Shopper insights
	At what level of granularity?	• Item/store/day • Buying point
	How are decisions made?	• By role (which role, under what conditions) • By function
	How are insights acted upon?	• By internal sales, distributers • By merchandiser • By retailer operations systems • By retailer staff

Source: Strategy& analysis

French retailer Carrefour, for example, has been sharing POS data with P&G since 2004. The two companies exploited such data at three different levels — national, regional, and store — to measure major SKU-level performance, regain market share, and monitor short-term reactions to promotions. POS data has brought the companies' joint business planning discussions to life and has helped P&G launch targeted promotions in Carrefour stores, increasing turnover for both parties.[18]

Some Indian companies have invested in POS technology. Metro Cash & Carry's Supplier Relationship Management (SRM) portal is an apt illustration. This interactive Web-based tool helps suppliers throughout India reconcile orders, track goods in transit, process invoices, and even analyze consumer behaviors through category-level data.[19]

Still, the fragmented nature of the retail industry in India and sheer number of traditional trade outlets make it difficult for CPG firms to collect POS data from these stores. Thus, CPG firms may make better use of secondary sales data, which is becoming increasingly available on a real-time basis through handheld terminals (HHTs).

6 Trade promotions

The advent of e-commerce has presented new challenges for bricks-and-mortar retailers. For instance, many shoppers now visit bricks-and-mortar stores only to examine and handle products of interest, then they buy online from the company that offers the cheapest price — which may not be the retailer whose physical store they visited. Modern retailers reverse this trend to some extent by capitalizing on schemes that increase store traffic even though they continue to be loss-making. Traditional trade retailers, on the other end, lose out. They cannot compete with the low price points that modern trade and e-commerce are able to offer. Thus, they have difficulty retaining customers; some have even closed their doors.

To create a level playing field across channels in India, CPG firms must adopt fair-trade policies and work to create a healthy competitive environment. Finding ways to increase multichannel sales can help. Toward that end, CPG companies can collaborate with retailers to create trade promotions across channels. Modern retailers often launch promotions to drive in-store sales in collaboration with multiple brands in a category. Along with driving traffic to bricks-and-mortar outlets, such initiatives help retailers nurture strong relationships with suppliers and brands.

Yet collaboration on in-store promotions need not be restricted to modern retailers. It can also be launched in collaboration with large, high-performing, traditional trade outlets, as the global brand Giordano Timewear has learned. By including addresses and contact details of traditional outlets in its promotional materials, Giordano gave its stores an extra marketing boost.[20] Such initiatives also encourage retailers to brainstorm ideas for trade promotions themselves.

Giordano launches buy 1 get 1 offer – available only at select outlets

To enhance sales during the Diwali holiday season, when consumer purchases are at their peak, Giordano launched a Buy 1 Get 1 Free offer on its watches.

The offer was specific to Mumbai and was available only at select modern retail outlets (Shopper's Stop, Lifestyle, Pantaloons, Helios, and Just in Time) as well as select traditional trade outlets.

Names and contact numbers of the traditional stores where this scheme was available were included in advertisements, increasing recognition among Giordano's consumers.

Source: My Retail Journey, "Selling, Upselling and Unselling," October 28, 2011.

New concepts — such as coordinated displays and "shop-in-shop" formats — are also catching on. Take Safeway, the large U.S. grocery chain. Safeway has invested in a coordinated product display initiative called "Spend Time Around Your Table." The project involves stocking all food products required to create a specific meal in a single product display, thereby coordinating purchases for consumers to make the entire meal. To execute the concept, Safeway has to collaborate with multiple CPG firms, ensuring product availability and participation so shoppers truly have everything they need to make a particular meal.[21]

Meanwhile, South Korean consumer electronics company Samsung has worked with U.S. retailer Best Buy to launch the in-store "Samsung Experience Shop." In the shop, consumers can purchase Samsung products and explore and interact with various Samsung-branded devices, helped by Samsung sales consultants as well as Best Buy associates.[22]

CPG and retail companies are also exploring other opportunities for collaboration — such as product testing through select outlets, combined loyalty programs, and innovative in-store communication platforms like self-service kiosks that let shoppers find information on the latest deals and new products.

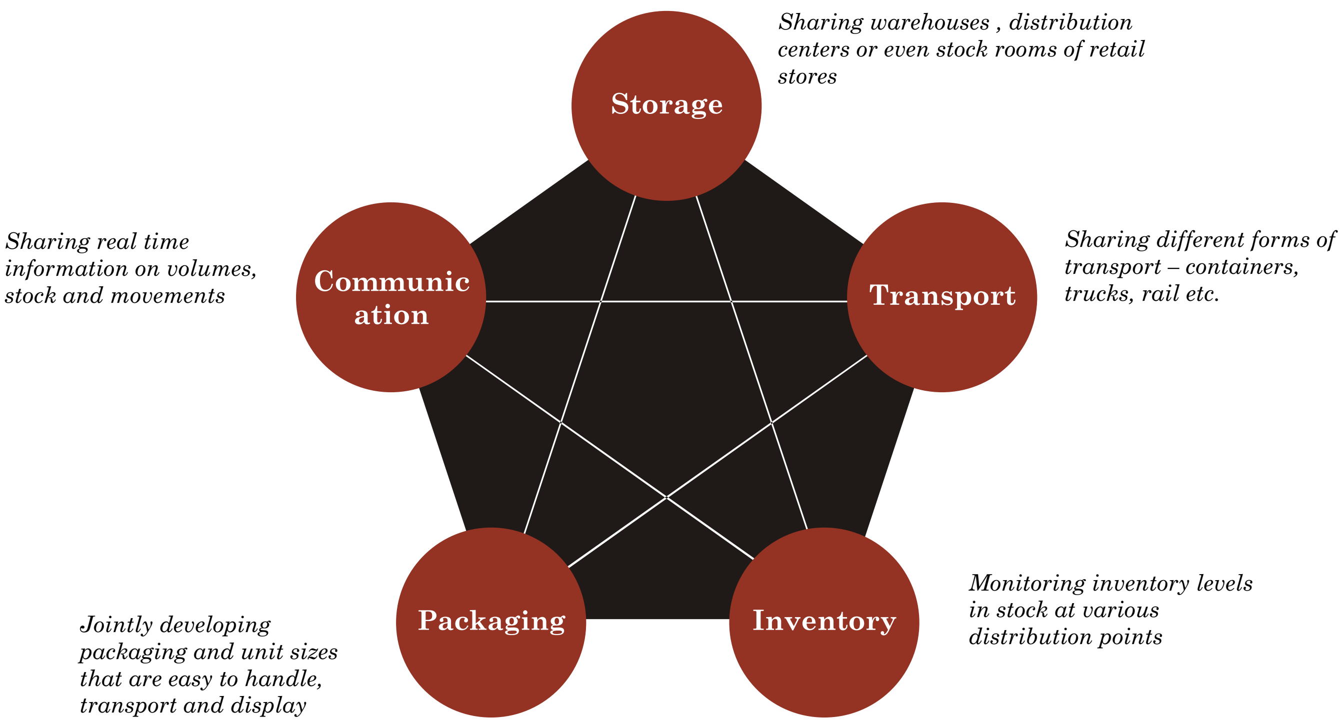
7 Joint logistics

Taking time to implement a collaborative logistics program can help companies make effective use of their resources. After all, despite their differences, CPG firms and retailers want similar business outcomes — low inventory, high-quality service, low costs. By working together to get the right products to the market, at the right time, they can achieve these outcomes.

Collaborating on logistics involves five distinct dimensions: storage, transport, inventory, packaging, and communication *(see Exhibit 10)*.

Exhibit 10: Five dimensions of joint logistics collaboration

Employing joint logistics encompasses collaboration on five distinct dimensions



Source : Strategy& analysis

The key to joint logistics is mutual trust. CPG firms that want to collaborate on logistics with retailers must consent to sharing resources such as warehouses with competitors. Thus, retailers need to assure them of fair play. The difficulty in establishing trust and transparency among CPG firms has hampered adoption of joint logistics, even though such collaboration can deliver valuable benefits.

However, as competitors begin to set aside their differences to invest in common logistics, we believe that soon the day will come when CPG firms work together, even if they are in the same sector. The alliance in North America between The Hershey Company and Ferrero Rocher Group — two chocolate titans, based in the U.S. and Italy respectively — shows such promise. The companies collaborate in the United States and Canada on warehousing, transportation, and distribution by sharing facilities throughout the supply chain. Results include cost savings for both players, as well as reduced carbon emissions.[23]

8 9 E-commerce and digital marketing

According to a comScore report, 60 percent of Web users in India visit online retail sites.[24] This presents a huge growth opportunity for CPG firms as well as bricks-and-mortar retailers to explore the digital space as an alternative sales channel and effective marketing platform. To encourage this phenomenon, the leading online marketplace player eBay has developed a consultancy service that creates brand-specific Web pages hosted on the eBay domain. As part of the service, dedicated category teams at eBay work with firms to maximize the value derived from their e-commerce platforms.[25]

eBay launches the online brand store for Tata Safari Storme

Tata Motors and eBay India have joined hands to launch a brand store for the Tata Safari Storme, triggered by the success of the Tata Nano brand store two years ago. Through this collaboration, Safari Storme branded merchandise will be available for purchase on eBay India.

The Safari Storme online store sells Tata branded products including leather key chains, trekking bags, t-shirts, Swiss knives, magnetic compasses, and a host of other adventure products.

Source: ebay.in, Seller Central, Expand Your Business, eBay Shops. Business Today, "Tata Motors to sell Nano merchandise on eBay," August 17, 2012.

Although both traditional and modern retail players typically view e-commerce as a competing channel, it has the potential to boost in-store trade if used innovatively. Amazon India, for example, is exploring an innovative in-store pick-up model, by which it partners with traditional trade stores that serve as pick-up points for Amazon consumers.[26] CPG firms can also capitalize on this trend by promoting the advantages for consumers of using companies' traditional stores to pick up merchandise. For example, by picking up their orders at the stores, consumers can get their merchandise more quickly than waiting for it to be shipped to their homes. They can also avoid the hassle that occurs when packages requiring receipt signatures are delivered to their home at times when they are not there to sign for the delivery.

Though firms across India are still finding their feet in the digital space, some are already collaborating in innovative ways. Take electronics retailer Croma, which recently partnered with Toronto-based e-book manufacturer Kobo to launch "The Bloggers Club," an interactive digital campaign. This club is open to Indian bloggers to post reviews on Croma products and outlets. It is an effective way to appease customers who have repeatedly complained about the lack of review units and problems in procuring devices from the retailer. Contests are held for the blogging community, and winners are awarded Kobo-branded merchandise.[27]

Some companies are also using their official website to go beyond information dissemination and drive CPG–retailer collaboration. Walmart, for instance, provides CPG firms the opportunity to showcase their products on its website.[28]

Walmart builds microsites with CPG firms

Walmart offers firms forward integration in the form of branded storefronts on the "In Stores Now" section of its website.

As part of the initiative, Walmart partners with CPG firms to create brand-specific microsites or web pages that are then displayed on the Walmart domain under the "In Stores Now" section. Walmart goes further by letting brands control the experience and messaging through interactive, flash-based "sitelettes."

The initiative enables firms to tap into Walmart's consumer base and promote their own products at Walmart stores. Through this program, Walmart is promoting branded products in multiple categories including food, health and wellness, baby care, beauty and personal care, pets, and home and office.

Source: ebay.in, Seller Central, Expand Your Business, eBay Shops. Business Today, "Tata Motors to sell Nano merchandise on eBay," August 17, 2012.

10 Traditional advertising

We have seen a recent uptake in co-branded advertisements in India, with CPG firms and retailers teaming up to market products together. For instance, Indian e-commerce retailer Flipkart and Motorola have been splashing marketing campaigns across television and print media for the exclusive joint launch of the Moto G phone. The objective is to promote the product while also reminding consumers to buy it at a particular place.[29]

Collaborative advertising initiatives help unite the marketing powers of players from both sectors. Such initiatives also bring down costs and typically increase store traffic for retailers as well as sales, and market share for both parties.

Collaborative advertising may be extended to include distributors as well. To illustrate, Apple in India co-brands its advertisements with pan-India distributors Redington and Ingram Micro. To save on costs as well as engage more actively with distributors, Apple has outsourced its advertising activities to its pan-India distributors. The distributors in turn enjoy Apple's continued patronage and higher margins.[30]

Apple outsources advertising to distributors

Part of Apple's success in India may be attributed to the open distribution model it has adopted with its pan-India distributors, Redington and Ingram.

Apple's relationship with its distributors goes beyond product availability to brand positioning and visibility. In fact, Redington takes out iPhone-related, full-page co-branded newspaper advertisements. While most brands have in-house teams for advertising, Apple does that jointly with its distributors, who are reimbursed through higher margins on iPhones.

Source: The Economic Times, "Apple wakes up to India's potential; iPhone witnesses four-fold rise in sales in 3 months," February 28, 2013.

Going forward, collaborative advertising may extend beyond co-branding to co-funding, or cooperative advertising. Co-funding of advertisements is popular with major global retailers such as Walmart, Target, Walgreens, and CVS Caremark. In fact, Walmart is taking it to the next level, by co-funding as well as co-creating ad campaigns with CPG firms.[31]

Walmart takes cooperative advertising with CPG firms to the next level

Many retailers have major co-op advertising programs. But the rapid growth of Walmart's program, sparked in part by the retailer's bold request for a share of CPG firms' consumer marketing budgets, seems unprecedented. In fact, CPG funds have become a financially material part of Walmart's marketing effort, fueling up to two-thirds of its year-on-year spend.

However, CPG firms are happy to fund Walmart's campaign. As they see it, unlike more conventional co-op programs, where vendor brands are used sparingly in cameo roles, Walmart's ads allow for considerably more creative input from vendor brands. And that gives them much more of a starring role.

To date, Walmart's co-op ads have featured Microsoft's Xbox, Unilever's Dove (in the "Campaign for Real Beauty" ads), and Coca-Cola (in the "Extended Family" holiday ad among many others.

Source: Advertising Age, "Walmart Ups the Ante with Brand Co-op Ads -- In More Ways Than One," November 30, 2009.

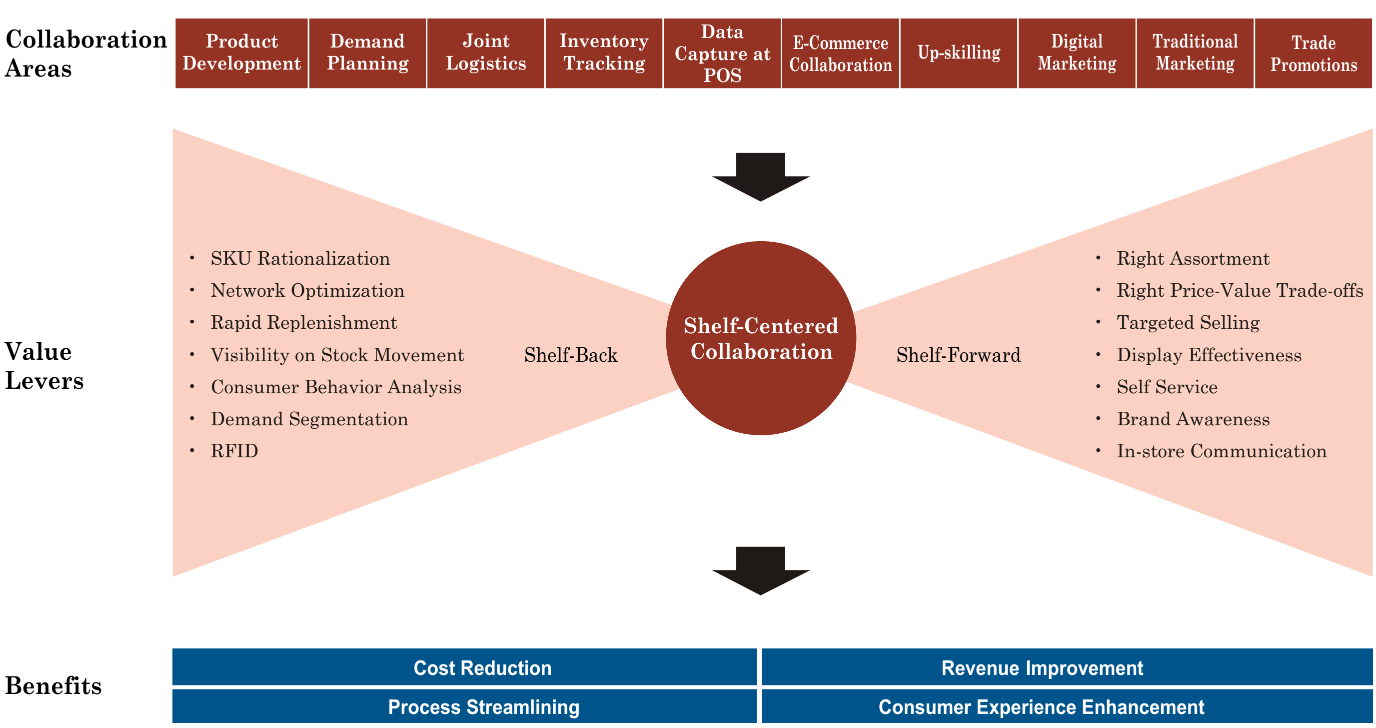
In a more sophisticated version of the co-funded advertising model, retailers may accrue funds based on their purchases from a CPG firm and then use the funds for advertising purposes. Under this model, when the retailer runs an advertisement featuring the CPG firm's product, the firm reimburses the retailer for a predetermined portion of the accrued amount. In some cases, the value of accrued funds may be enough to reimburse 100 percent of the advertising cost to retailers.

Shelf-centered collaboration

Today, retailers as well as CPG firms want to optimize "shelf-back" activities (getting the right product to the right shelf) as well as "shelf-forward" activities (getting the product off the shelf and to the right consumer). Why? By optimizing such activities through improved processes and systems, they can address challenges such as soaring supply chain costs, inability to command premium prices, low fill rates, and significant replenishment time. Shelf-centered collaboration can help, in each of the 10 collaboration areas we have discussed *(see Exhibit 11)*.

Exhibit 11: Shelf-centered collaboration

Opportunities for collaboration are "Shelf centered", delivering benefits across shelf-back and shelf-forward levers



Source : Strategy& analysis

Yet there are additional areas that CPG firms and retailers could explore in the future to further improve the shelf-back and shelf-forward activities shown in Exhibit 11. These include the following:

Joint category management.

CPG firms and retailers could gradually expand the scope of their collaborative efforts to grow entire categories rather than just brands. But to do so, they will need to shift the focus of their dialogue from capturing a slice of the pie to increasing the size of the pie as a whole. That will mean arriving at the right combination of assortment strategies, price, shelf presentation tactics, and promotions over time.

Co-development of private labels.

CPG firms can share resources with retailers to build their private labels, maximizing their own capacity utilization while also creating lasting relationships with retailers. Given the highly competitive nature of the Indian retail landscape, firms have a critical opportunity to invest in non-compete private labels. Retailers may also benefit from CPG firms' innovation and marketing prowess.

Collective collaboration with traditional trade.

Navigating India's fragmented traditional trade landscape is an uphill battle for CPG firms. Even leading companies have been able to tap into just 50 percent of this market. Collective collaboration with traditional retailers can prove effective in the long run, resulting in better use of resources. Through such collaboration, CPG companies could integrate individual stores' physical resources (such as funds, manpower, and storage space) into a common pool and use it to launch region-specific advertisements or on-the-shelf innovations.

Clearly, implementing collaborative solutions across the value chain can deliver multiple benefits. Yet companies face numerous barriers to collaboration. In the next section, we discuss the key obstacles and explore ideas for surmounting them.

Barriers to Collaboration

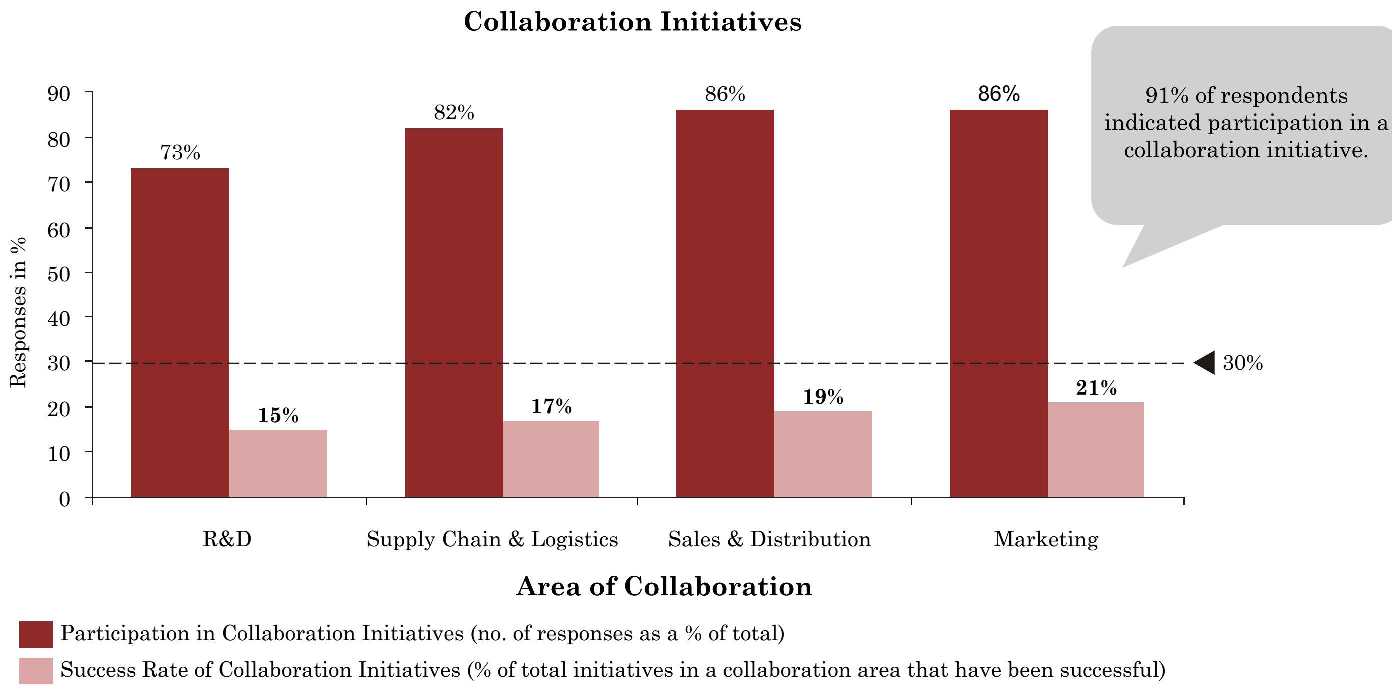
The historically transactional relationship between retailers and CPG firms has raised barriers to productive collaboration. Until now, players in the two sectors have not shown a keen interest in working with each other. Instead, their conversations have focused on daily transactions around stock movement and sales exhibits, rather than on data analysis, product co-creation, or other more strategic matters. Moreover, most conversations take place at the lowest levels, such as between a CPG firm's sales people and the retailer's procurement staff. Such individuals tend not to think in terms of collaboration opportunities.

Further, some obstacles to collaboration are especially difficult to break down, because they are ingrained in companies' operating models and incentive systems. For example, a sales representative would never invest in strategic dialogue with a retailer if the retailer's only KPI were related to meeting his sales target. Therefore, though some Indian CPG firms and retailers have launched successful collaboration initiatives, the sectors have not yet captured collaboration's full potential.

Although 91 percent of our survey respondents said they had taken part in at least one collaboration initiative, the success rate of these initiatives has been just 15 percent to 20 percent, and the majority of the initiatives have not achieved their intended objectives *(see Exhibit 12)*. (Degree of success has been calculated using a scaled ranking for each initiative.)

Exhibit 12: Collaboration participation and initiative success rates

Although majority of survey respondents have participated in collaboration initiatives, success rates remain low

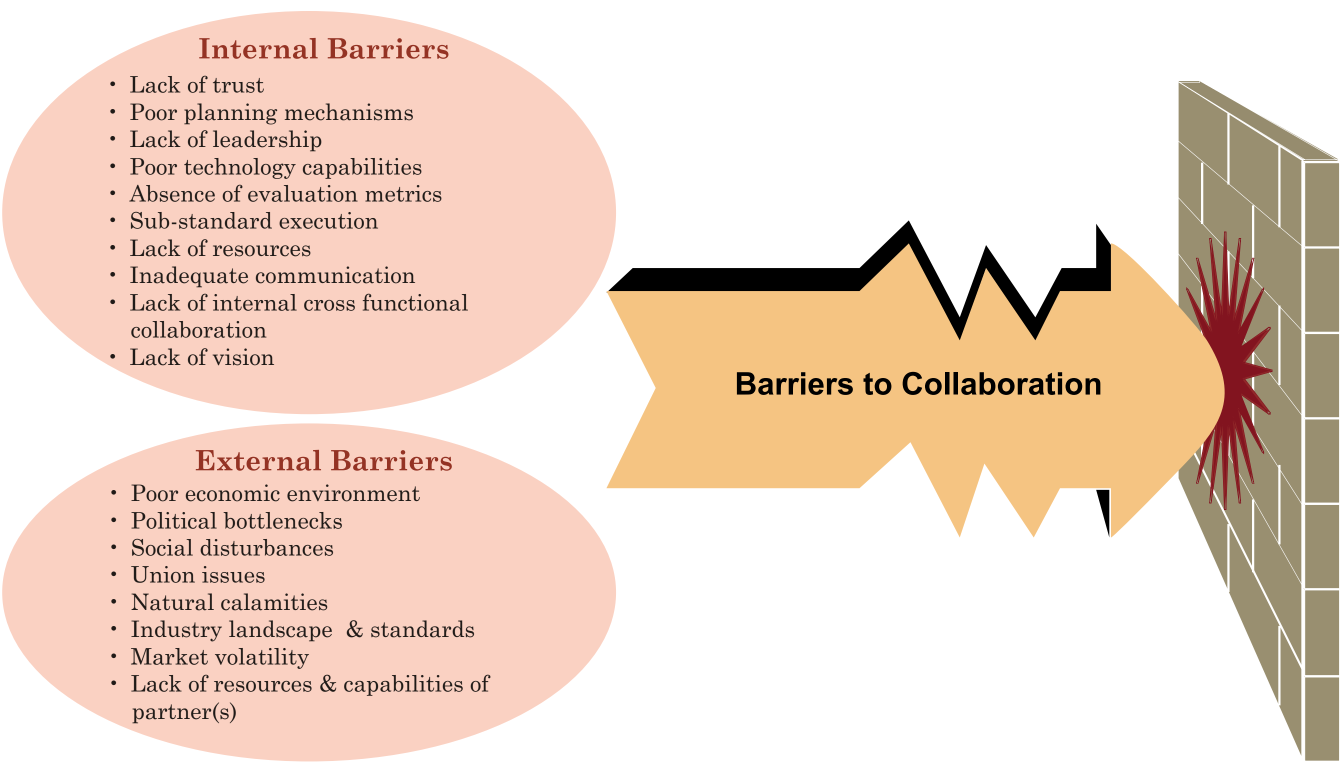


Source : Strategy& survey conducted in association with FICCI (June-July 2014)

What is going on? Our respondents identified a number of internal challenges to success. These include lack of trust (especially in terms of sharing internal data with partners), a shortage of internal cross-functional collaboration (for instance, marketing, supply chain, operations, and sales are not working together on projects), inadequate resources and capabilities (people, IT, funds), poor planning, lack of commitment from the top, inadequate communication, and absence of performance metrics *(see Exhibit 13)*. Respondents also identified a number of external challenges, such as a dearth of partners with adequate resources and capabilities, partners with misaligned strategic goals, a poor economic environment, natural calamities, and union issues.

Exhibit 13: Internal and external collaboration barriers

Barriers to collaboration may be both internal as well as external

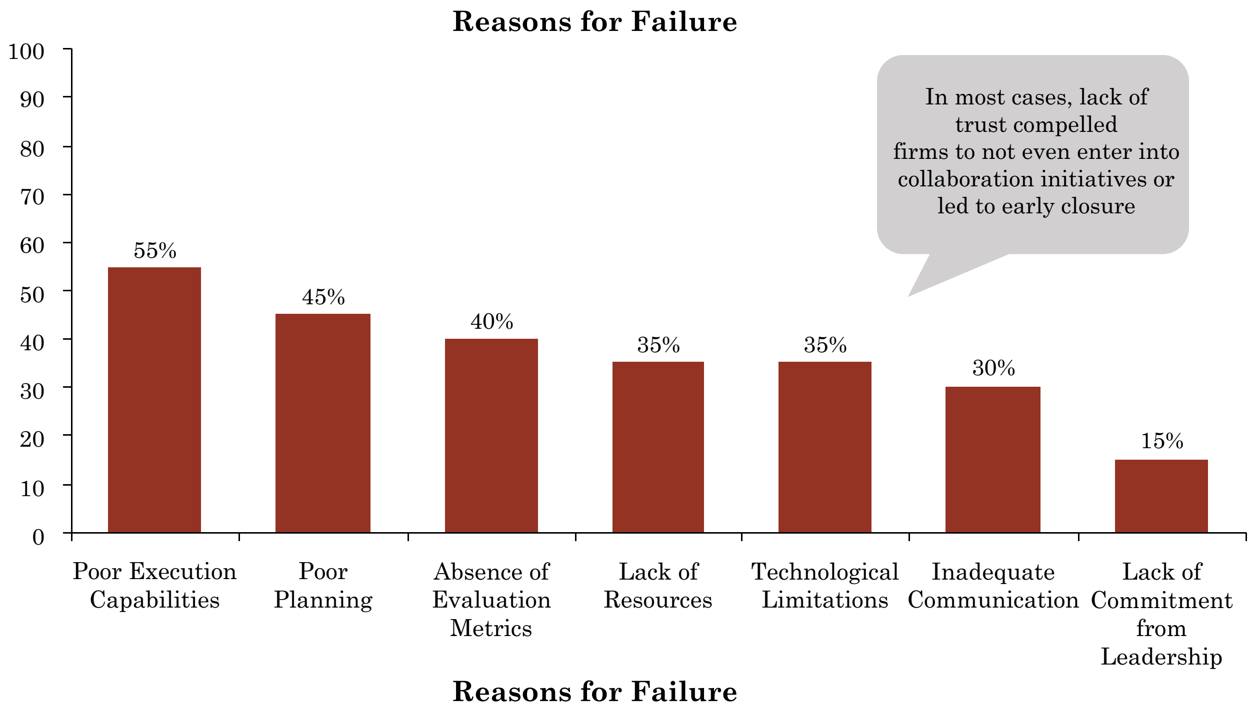


Source : Strategy& analysis, Interviews with industry leaders, Strategy& survey conducted in association with FICCI (June-July 2014)

The primary reasons our survey respondents cited for limited success of their collaboration initiatives include poor execution capabilities, poor planning, and absence of metrics to track and measure progress on joint initiatives *(see Exhibit 14)*. Lack of resources, technological limitations, and poor leadership were cited as second-order challenges. This suggests that although companies may intend to collaborate, they need to better structure and organize around executing such initiatives to boost their success rates.

Exhibit 14: Reasons for collaboration initiatives' limited success

Survey respondents identified key reasons for failure of collaboration initiatives



Source : Strategy& survey conducted in association with FICCI (June-July 2014)

In the next section, we explore how companies can overcome common barriers to collaboration and sweeten the odds that the collaboration initiatives they do launch generate the hoped-for results.

Enabling Collaboration: The Way Forward

We maintain that by taking a phased approach to collaboration, CPG firms and retailers can overcome internal and external barriers and increase the odds of success for their collaboration initiatives *(see Exhibit 15)*. In the first phase, companies establish conditions for effective collaboration. That is, they formulate their collaboration strategies; identify collaboration partners; and align systems, processes, and organizational structures to enable effective collaboration. In the second phase, they ensure that their collaboration is sustainable. Specifically, they turn to next-level priorities — such as agreeing on targeted benefits linked to KPIs, establishing data analytics for consumer insights, building a culture of trust and transparency, and partnering with government agencies to support growth in the CPG and retail sectors.

This approach applies to any or all of the collaboration areas described earlier in this report. But regardless of the areas involved, success will hinge on the ability to effectively execute change. Below, we take a closer look at the two phases and their corresponding activities.

Exhibit 15: A phased approach to collaboration

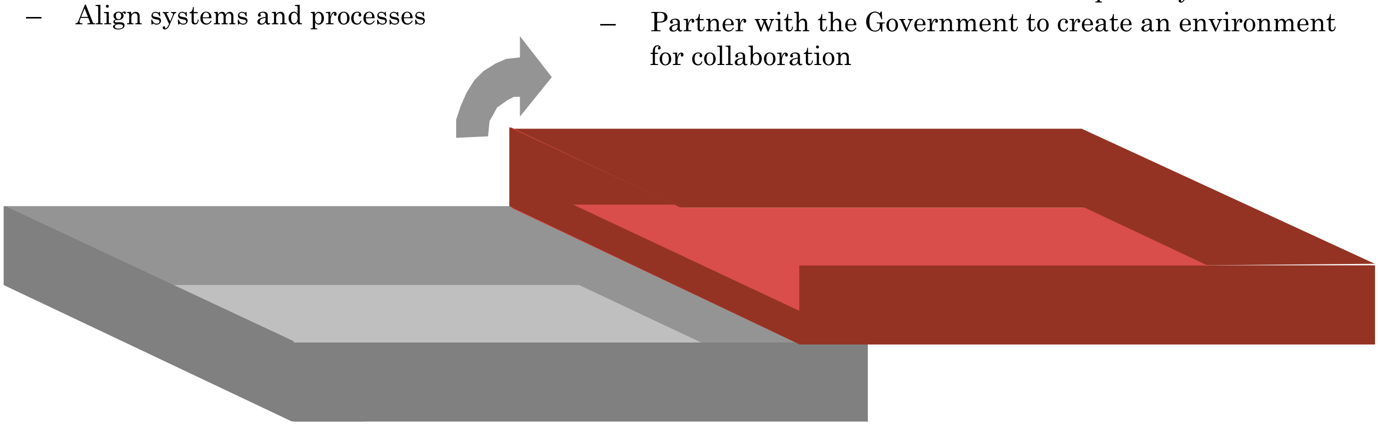
Adopt a phased approach, starting with robust basics to ensure readiness and then taking up next level priorities

Phase 1 – Ensure Readiness on Basics

- Determine your 'way to play'
- Gain buy-in and focus on execution
- Segment and Prioritize partners
- Align systems and processes

Phase 2 – Sustain Collaboration through Next Level Priorities

- Establish and track joint KPIs based on established benefits targets
- Jointly invest in data analytics for consumer insights
- Build a 'Culture' of Trust and Transparency
- Partner with the Government to create an environment for collaboration



Source : Strategy& analysis

Phase 1: Getting the basics right

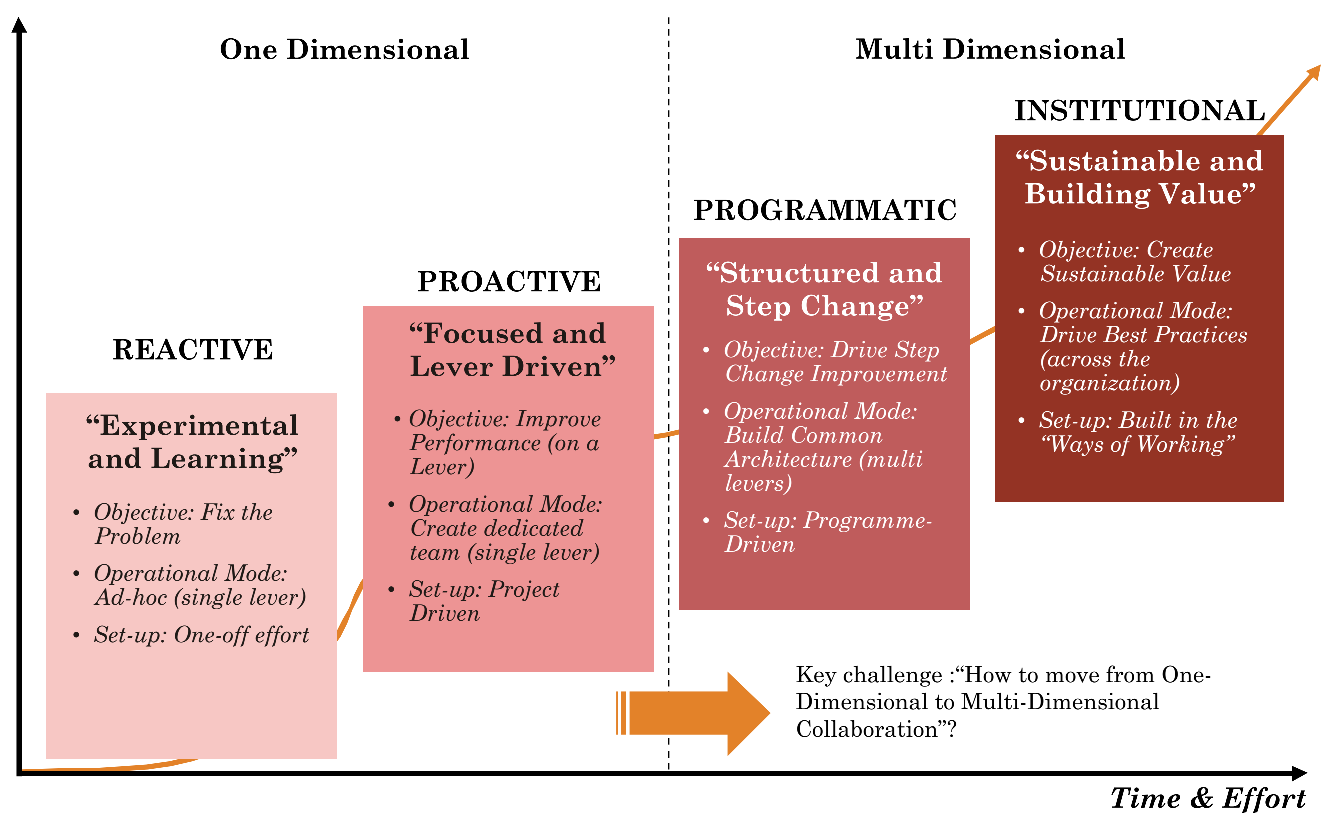
Determine your collaboration strategy — your "way to play"

View collaboration as a journey guided by the maturity of your firm as well as that of the landscape in which it operates. There is no one-size-fits-all model. However, to derive maximum benefit from collaboration, you will need to institutionalize collaboration as a way of working with your partners.

There are four collaboration models to choose from *(see Exhibit 16)*, and they vary in terms of the time and effort required and benefits realized — revenue increases, cost savings, improved processes, or stronger connections with consumers. You will have to determine which model or way to play best suits your company's circumstances.

Exhibit 16: Collaboration models

Collaboration is a journey, delivering increasing benefits proportional to the time & effort invested



Source : Strategy& analysis

Reactive

The Reactive model, as the name suggests, implies an ad hoc, one-off approach to collaboration. This approach requires the least effort, as the primary objective is to fix a problem as it arises. The Reactive model can be perfectly appropriate in some cases, and provide valuable results.

Consider the case of a leading retailer experiencing stockouts of a popular beverage brand. The retailer entered into a one-off collaboration with the beverage manufacturer to determine the root cause of the stockouts and to jointly design a solution. Thanks to their efforts, stockouts of the product decreased by 60 percent.

Proactive

Companies slightly higher up on the collaboration curve take a more Proactive approach to collaboration. Such companies identify a specific financial objective they want to achieve (such as “increase sales,” “reduce costs,” or “improve margins”). They then work with partners to reach those goals. Typically, partners set up cross-organizational project teams to manage the effort.

A leading British snacks manufacturer adopted the Proactive approach to increase sales of its multipack crisps. The manufacturer set up a joint project team with a key retailer to conduct consumer research on buying behaviors, and discovered that multipacks that had higher levels of sales needed more shelf space. As a result, the two companies jointly developed a tailor-made merchandizing solution that delivered a 51 percent improvement in product availability and a 7 percent increase in sales of the crisps.

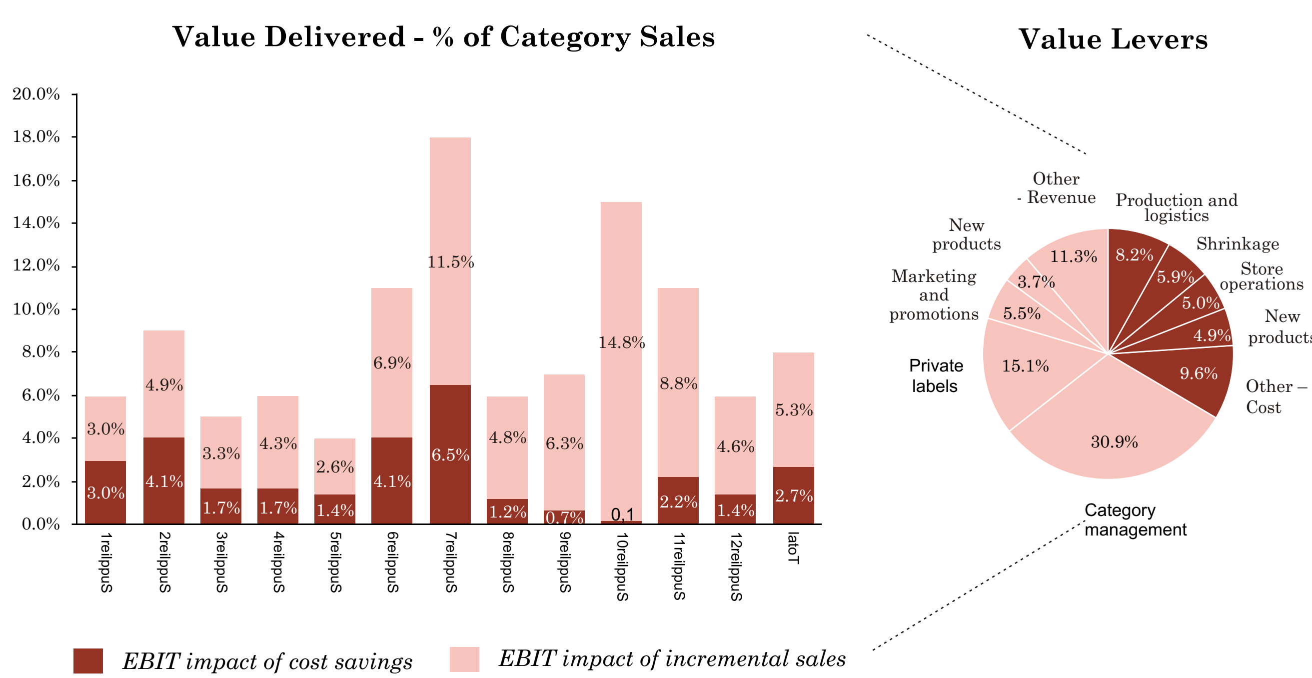
Programmatic

Whereas the Reactive and Proactive models focus on a single problem or financial goal, the Programmatic model (as well as the Institutional model) approaches collaboration as a systematic way of working with partners across multiple areas to realize maximum value. The Programmatic approach requires companies to collaborate on a wider spectrum of issues in ways that result in a step change in performance for each.

For example, a Nordic retailer successfully adopted a multiyear Programmatic approach, targeting performance improvement initiatives across the value chain with 12 of its product suppliers. The objective of the program was to increase revenue and improve margins for all parties involved by evaluating opportunities across several areas: category management, private labels, marketing, new products, logistics, shrinkage, and store operations. The effort resulted in a 5 percent to 10 percent increase in margins for every participating company *(see Exhibit 17)*.

Exhibit 17: Programmatic collaboration example

Case Example: A Nordic retailer adopted the “Programmatic Approach” with key suppliers to improve on multiple value levers



Source : Strategy& analysis

Institutional

The most evolved form of collaboration, the Institutional model, calls for companies to treat collaboration as an element of "business as usual." That means setting joint targets with partners, continuously identifying performance improvement opportunities, and encouraging open communication with partners across organizational levels — on an ongoing basis aimed at creating long-term, sustainable impact.

P&G and Walmart are known for spearheading this level of collaboration, institutionalizing it as far back as the 1980s by investing in one of the first data-sharing systems. The two firms jointly work on planning, forecasting, replenishment, marketing, and promotions. In short, they collaborate throughout the value chain, saving time, reducing costs, and boosting their profits to the tune of millions of dollars.[32]

Leading players using the Institutional model set up annual joint business planning sessions with partners to identify common strategic objectives and areas where each partner can help the other achieve its goals. These meetings are led top to top (CEO to CEO), but the partners also establish dedicated teams for specific accounts by function — such as a supply chain manager for retailer A or a category captain for CPG firm B. The partners develop plans for achieving specific objectives across various areas — such as category growth, trade promotions, and logistics. They also hold monthly meetings to jointly review performance and plan for the future.

Choosing a model

To determine which collaboration model to pursue, consider your strategic goals and capabilities. For example, if your company has scale, a strong culture of internal cross-functional collaboration, and large-scale project management capabilities, the Programmatic or Institutional models could make a good fit. Otherwise, you may want to start with the Reactive or Proactive model.

Segment your collaboration partners

Although all CPG firms and retailers should cultivate more open relationships, it is not feasible to try for a deep collaborative approach with every potential partner. You need to segment your possible partners. Many CPG companies aim to collaborate only with their largest retailers (and retailers with their largest CPG suppliers) because they assume that the biggest organizations can bring the greatest value to the collaboration table. Although this assumption is understandable, it may not always be accurate. In some cases, a smaller partner may make a more committed and valuable collaborator because it has greater interest in partnering and more managerial attention to devote to it. Thus it may invest more time and effort in the program than a large company that is knee deep in several similar initiatives.

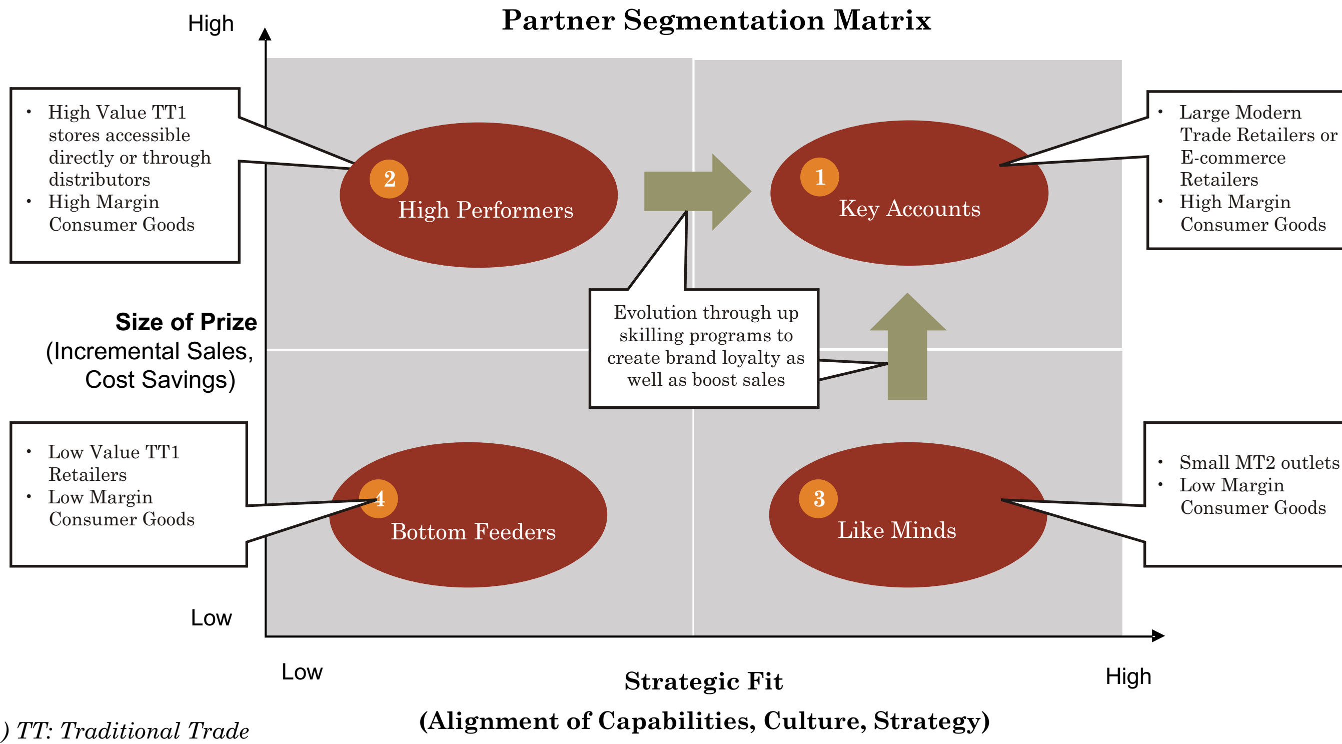
With this in mind, segment possible partners based on two broad dimensions. The first is the "size of the prize:" the potential to help you generate incremental new revenue and margin improvements. The second is "strategic fit:" how well the partner's strategic goals align with yours (such as attaining market leadership in a particular category or region), how well your and their organizational capabilities (people, processes and systems, and technology) complement one another, and whether you both have an organizational culture that values collaboration.

Strategic fit is particularly important to get right. All too many companies are tempted to use collaboration as a way to make up for gaps in their own capabilities. In practice, however, the most successful collaborations build on strengths rather than compensating for weaknesses. A CPG firm that collaborates with a retailer to improve replenishment mechanisms, for example, has little to gain from the retailer's POS data unless the firm possesses the analytics and other capabilities required to extract useful insights from the data.

Based on the two dimensions, four distinct segmentation categories emerge, which we call Key Accounts, High Performers, Like Minds, and Bottom Feeders *(see Exhibit 18)*.

Exhibit 18: Four partner-segmentation categories

Case Example: A Nordic retailer adopted the "Programmatic Approach" with key suppliers to improve on multiple value levers



1) TT: Traditional Trade
2) MT: Modern Trade
Source: Strategy& analysis

Key Accounts

Key Accounts are partners that are generating or will generate large business and that share common goals. If you are a CPG firm, this segment would likely include large national or regional modern trade firms (such as Big Bazaar, Reliance Fresh, More, and Croma) and large e-tailers (like Flipkart and Amazon). If you are a retailer, this segment could include the top three to five national or regional CPG companies that have a strong overlap in categories with your company and with whom you enjoy a long-standing relationship.

To partner with companies in the Key Accounts segment, we recommend using a more active collaboration model, such as Programmatic or Institutional, to establish joint business planning and cross-functional dedicated account teams.

High Performers and Like Minds

These two segments would include partners either that are "cash cows" (they generate a steady return of profits) or that share your strategic interests — but not both. If you are a CPG firm, partners could be high-value traditional trade outlets or smaller modern trade stores (for example, chains that have four to five stores).

However, keep in mind that small retailers, especially traditional trade, often lack capabilities needed for category management, merchandizing, trade promotions, marketing, and supply chain management. Thus the Programmatic or Institutional collaboration model may not make a good match for such partners. Also, given the number of traditional trade outlets in India, a "light touch" through deployment of the Reactive or Proactive model would probably make more sense for collaborating with such partners.

You could also consider investing in training to upskill traditional trade retailers in areas such as assortment strategy, merchandising, IT, and sales delivery. These efforts could translate into brand loyalty and increased access to sales data for you, enabling better decision making. For outlets located in remote areas, your CPG company might also consider incentivizing distributors to facilitate upskilling by launching a "train the trainer" initiative. To effectively manage resources needed for collaboration with traditional trade retailers, you could cluster-target them (define groups of outlets based on a dominant criterion such as region or category). This would make it easier to share resources such as funds and manpower across several retailers instead of having to engage in one-on-one account management.

Helping traditional trade retailers to raise their operating standards will benefit the retail industry as a whole — by improving its overall competitiveness and level of sophistication.

If you are a retailer, the High Performers or Like Minds segment could include smaller CPG firms or those with which you have not yet explored synergies. However, it is critical to align objectives up front. Working with a regional leader in an underperforming category (for example) or investing in improvement opportunities with market leaders can be a good way to enter into long-term relationships and enjoy sustained patronage. You may also benefit from the monetary outcomes of such initiatives.

Bottom Feeders

Bottom Feeders are companies that have low value potential and that lack strategic alignment with your company's goals. You thus will not likely consider them for active collaboration.

Gain buy-in and focus on execution

Successful and sustainable collaboration starts at the top. For any collaboration that your company engages in, CEO and chairman-level endorsement is key. This is because the raison d'être of collaboration is to position all partners to achieve common strategic goals.

In addition, think about how your company and its collaboration partner can set up a cross-functional team, led by a key account manager, for each firm (regardless of the collaboration model you and your partner are using). Members should come from supply chain, logistics, marketing, and IT. Teams could be organization-specific or cross-organizational, comprising members from partner organizations, depending on the depth of the collaborative relationship.

Furthermore, with your fellow collaborator, identify a set of touch points, including monthly or quarterly joint account sessions, to assess performance of the collaboration and make midcourse corrections as needed. If your company is pursuing multiple initiatives with a target partner, you may want to set up a project management office (PMO) to take responsibility for orchestrating all the projects or initiatives. However, be sure that each initiative has a clear set of owners and a governance body — such as a steering committee or a higher-level council comprising CEOs of the two partners plus key members from both sides.

Align systems and processes

With your collaboration partners, set up common systems and back-end processes that can talk to each other. These will help you surmount key system integration challenges facing many firms today, such as differences in master codes for a specific SKU across CPG firms and their retailers. Such differences, which stem from disparate IT systems, often lead to incorrect orders, shipment delays, and low fill rates. By jointly investing in a streamlined and common system, you and your partners can synchronize master data across your two systems and significantly increase operating efficiency.

Similarly, consider streamlining and aligning other systems such as those dedicated to billing, labeling, and electronic data interchange (EDI) to enable real-time updates. EDI, originally used to facilitate exchange of formatted data between disparate systems, holds significant potential for collaboration. Already used as a mechanism to provide real-time visibility into stock movement through integration with retailers' billing software and CPG firms' systems, EDI can also support data sharing in processes that go beyond store operations, such as the sharing of financial data or management of logistics.

Further, consider leveraging consumer and retail technology trends to increase operating efficiency and enable more effective collaboration. For instance, growth in enterprise mobility, whereby field operatives can remotely access and enter product-related information online using handheld mobile devices, has enabled companies to gain easy access to secondary sales data, has supported remote order taking, and has reduced the need for paperwork for activities such as order processing and data entry.

Phase 2: Sustain collaboration

Establish and track joint KPIs

With your partners, identify joint metrics and KPIs to track and measure progress on each collaboration initiative. Make sure these KPIs are easy to measure and monitor. Link them to performance of the joint account team members, so they serve as incentives for variable pay *(see Exhibit 19).*

Exhibit 19: Sample KPIs for in-store promotion effectiveness

KPIs help define and measure progress extent of collaboration success or lack thereof

Field Force KPIs

SAMPLE

KPI	Measurement / Calculation
Share of shelf space	**vs. planogram** Percentage compliance with planogram (average)
	vs. competition Percentage share of visual inventory
Product availability	Availability in hot spots, aisles (vs. benchmark) Number of inventory days (vs. benchmark)
Compliance with promotional sales price	Percentage of selected products with price within the defined price band
Compliance with promotion execution	Promotional compliance requires correct location, product/s, mechanism, position, and pricing
Compliance with budget	Actual financial results vs. budget

Source : Strategy& analysis

Jointly invest in data analytics for consumer insights

Many observers have cited the accurate prediction of consumer demand as the most critical factor for improving replenishment forecasts, which directly affect supply chain efficiency. Yet such prediction has become increasingly difficult. With the advent of the Web, today's consumers have instant access to product information; in particular, promotions and price comparisons. And they have learned to buy from promotion to promotion, stockpiling products for future consumption. In this situation, selling products at regular prices results in lower margins for CPG firms and lower sales volumes for retailers.

If you and your collaboration partners could use data to gain more useful insights into consumer behavior, you would both be better positioned to direct your R&D investments more strategically, craft more effective marketing campaigns, and maximize your supply chain efficiency. Consumer analytics could thus drive profit for both sides, making joint investment in data analytics highly worthwhile.

Particularly useful technologies that enable direct interaction with consumers include customer relationship management (CRM) systems, Web 3.0 (which uses natural language search, data mining, and artificial intelligence technologies), and online applications such as digital media campaigns and contests on social networking sites like Facebook. These and other technologies can enhance analytics by enabling companies to collect and interpret large volumes of data more effectively and efficiently, so as to carve out actionable insights for driving fresh growth for the organization.

Build a culture of trust and transparency

To forge collaborative partnerships, you and your partners need to move beyond gut feelings about one another to a relationship based on facts. That requires a culture of trust and transparency. An up-front agreement on how to share data across the value chain is essential, as is a clear understanding of what each partner brings to the table and how the companies will share the benefits and costs of joint initiatives. Perhaps even more important to building trust is a clear understanding of the areas (such as intellectual property or confidential data on salaries) that each party will not share.

With your partners, lock in specific agreements on targets, responsibilities, and accountabilities as early as possible, along with explicit expectations. Moreover, in your own organization, encourage and reward behaviors that foster trust, such as candor, openness, and adherence to agreed-upon processes. Suggest to your partners that they do the same in their enterprises.

Partner with government

Through collaboration, Indian CPG and retail firms can come together to persuade government agencies to help create an environment that fosters growth for both sectors. For instance, India's national government can establish incentives for warehouse and logistics players to set up the kind of world-class warehousing facilities that India currently lacks. Such incentives could help reduce overall logistics and storage costs for your company, whether you are a CPG firm or a retailer.

Additionally, granting "industry" status to the distribution and retail sectors will enable smaller distributors and retailers to gain access to organized financing from banks. If your company falls into one of these categories, you could use such financing to upgrade your systems and capabilities. These improvements will make you more valuable as a collaboration partner.

Last, government implementation of the proposed goods and services tax would mitigate the cascading effect of multiple taxes across India's center and states and would improve distribution channel efficiency.

Conclusion

Collaboration between CPG and retail players can change the game for both sectors if participants pursue it strategically and systematically. To be sure, working together in these new ways will not be easy. Yet the potential benefits warrant at least a first round of discussions between suitable CPG and retail partners. These discussions can be a precursor to decisions about ways to play and the kinds of collaboration initiatives aspiring partners ultimately initiate. The fact is, companies on both sides cannot expect to drive sustainable growth in the future unless they work with, rather than against, each other. Collaboration is no longer a choice; it is the new imperative — and industry players must move now to meet it.

Further Reading

The Collaboration Game
Building value in the retail supply chain
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Successful Innovation in Indian Retailing
How smart ideas translate into profitable business
2013
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The game changers
2010
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Roasted or Fried
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2010
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Reinventing Retail
A new path to profitable growth
2010
http://www.strategyand.pwc.com/media/file/Reinventing_Retail.pdf

Cross-Channel Integration in Retail
Creating a seamless customer experience
2012
http://www.strategyand.pwc.com/media/file/Strategyand_Cross-Channel-Integration-in-Retail.pdf

Note to the Reader

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We hope this report will be a stepping stone for readers to explore the potential of collaboration across the CPG and retail landscape in India.

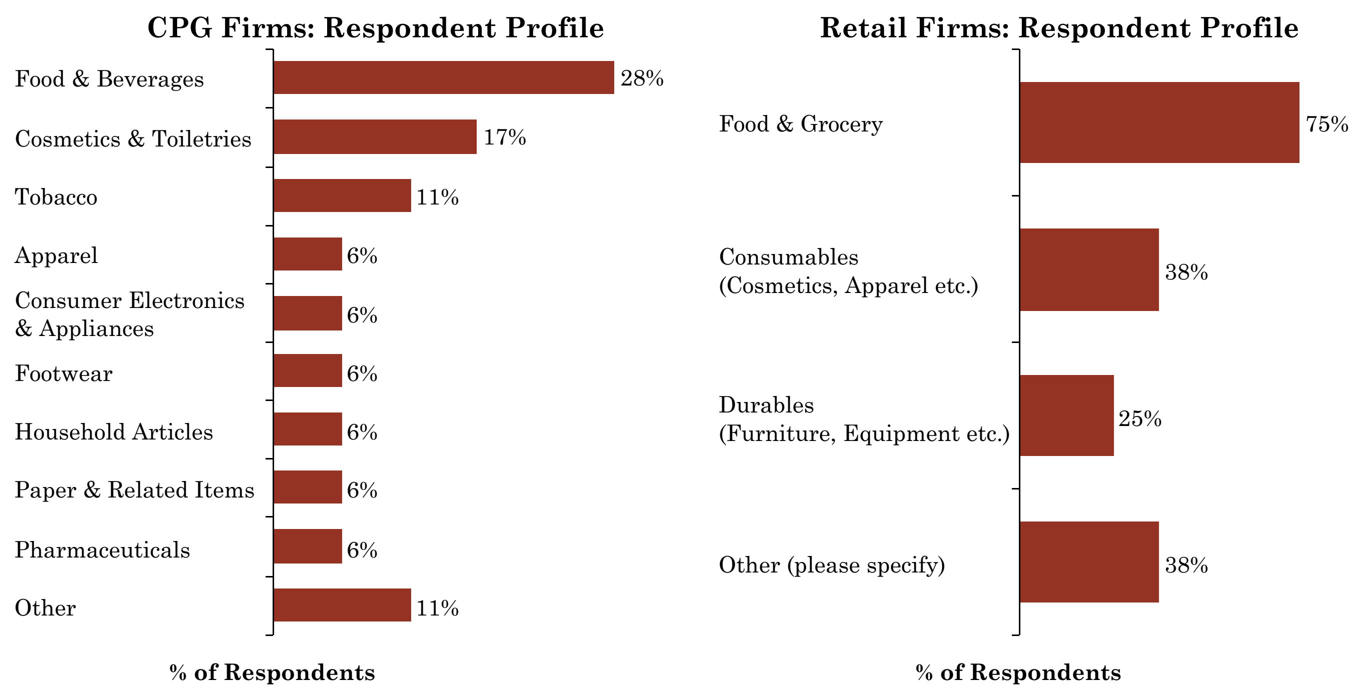
About our research

With the objective of exploring how CPG firms and retailers in India could work together to overcome similar challenges and obstacles, in June 2014, Strategy& (formerly Booz & Company), in association with the Federation of Indian Chambers of Commerce and Industry (FICCI), set out to identify potential collaboration areas through a robust research methodology. The research consisted of a survey circulated across more than 500 FICCI FMCG and Retail committee members and interviews conducted with leading decision makers across organizations in both sectors. The research also included market visits to traditional and modern trade outlets as well as in-depth discussions with leading e-commerce players.

The survey was conducted across various categories in the CPG and retail sectors *(see Exhibit 20)*. It assessed current collaboration initiatives, identified forward-looking opportunities, and enabled articulation of barriers to success. Interviews and market visits were used to further validate findings and recommend a way forward.

Exhibit 20: Profile of survey respondents

Leading CPG & Retail firms, across multiple categories, have been surveyed as part of the Strategy&-FICCI study



Note: Respondents may belong to more than one category
Source : Strategy& survey conducted in association with FICCI (June-July 2014)

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