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FINDING WIN-WIN

What makes a good trading partner? Manufacturers can start by taking a more customized approach to each retailer.

BY **DENISE LEATHERS**

Unlike those youth sports competitions where everyone gets a trophy, the grocery game often produces clear winners and losers. Thanks largely to consolidation that's created increasingly powerful retailers, suppliers are the ones that usually take a licking. But so-called "partnerships" that keep one company on the verge of bankruptcy aren't good for anyone — even retailer winners. In order to succeed in an increasingly competitive marketplace, they need strong partners that can help them get ahead.

"The business is harder than it used to be," confirms Bob Shaw, president of Charlotte, N.C.-based Concentric Marketing. "Everybody is fighting against more things: channels, trends, brands, consumers with greater clout, etc." So although it may sound cliché, he continues, in order not only survive but thrive, "We need fewer win-lose conversations where we put each other out of business and more win-win where we help each other get ahead."

OK, so outside of rock-bottom prices, what can manufacturers do to help their retailer partners — and by extension, themselves — succeed? For starters, they can stop treating every chain they supply the same way.

ONE SIZE DOES NOT FIT ALL

Whether through a unique value proposition, assortment, customer service or a myriad of other variables, differentiation has become a critical retailer strategy. As a result, says Shaw, "A one-size-fits-all approach by suppliers doesn't cut it anymore." Still, he reports, a shockingly high number of manufacturers spend a tremendous amount of time and effort trying to shove the same products and programs down every retailer's throat, regardless of whether or not it makes sense in a particular chain's set.

"Retailers want to work with manufacturers that take the time to understand how they go to market, their banners, their markets, their goals and their programs… versus putting them in the same bucket as All Retailers," says Shaw. "A more personal approach that takes into consideration the unique challenges and opportunities faced by an individual retailer is the key to creating an authentic partnership." That means manufacturers should forget about pitching the same program to every retailer they visit. Because, let's be honest, it's not going to work in every chain. Figure out what it will take to succeed at a given retailer, and build a program from there.

> 'Retailers are more willing to pioneer than they were in the early days of category management when everyone carried the same things.'

In fact, says Ken Morris, principal at Boston-based Boston Retail Partners, when they make an initial pitch to a new buyer, smart manufacturers will focus more on the benefits of the business relationship and less on product attributes. "While making the product compelling to the retailer is important," he explains, "it's even more important to demonstrate how you can add value to the supermarket's business or make their operations more efficient and easy."

It's also important for manufacturers to recognize that while they may be focused on growing their brand,

retailers are focused on growing the category. So forget about presenting items or strategies that merely swap share between brands. "Manufacturers often have tunnel vision in that regard," says Don Stuart, managing partner at Wilton, Conn.-based Cadent Consulting Group. "But the most valued vendors are the ones who partner with retailers, delivering objective, category-focused insights, rather than pushing their own agenda." Remember, he says, the goal is to become a good trading partner versus just a supplier.

> While 72% of manufacturers believe retailers understand their recommended pricing strategies, only 46% of retailers say they actually do. As a result, only about 30% of retailers end up using manufacturers' pricing recommendations.

"There's a tendency among vendors to focus on me, me, me: Here's what I have, look at what I've done," Stuart explains. But in today's marketplace, it needs to be all about you, you, you: Here's how this product will grow your category, here's what your target shopper wants, etc. "Today's environment requires a much more customized, retailer-centric approach," he says.

"Ultimately," continues Cadent business analyst Maxwell Legocki, "manufacturers want to make themselves indispensable. Establishing your brand as a leader in consumer insights — coupled with both product innovation and strategy — can give you the staying power required to achieve long-term growth."

EXCEL AT CATEGORY INSIGHTS

He notes that companies identified by retailers as top suppliers year after year — Proctor & Gamble, Unilever, Kraft Heinz, General Mills, PepsiCo — all excel at providing category insights. Not coincidentally, they also rank among the world's largest manufacturers. (Knowledge doesn't come cheap, so deep pockets help.)

But small manufacturers with tight budgets can bring unique insights as well. For example, says Stuart, a lot of the growth in categories like baby food is being driven by organic, and many of those players are small, independent companies. They may not have the same resources as bigger suppliers, but those manufacturers do have first-hand knowledge of some of the fastest-growing niche segments — and they're often perceived as less biased than their super-size counterparts.

"Because they're not giant conglomerates, each account holds more meaning for [small manufacturers] — at a higher level in the company," adds Shaw. "They're also more nimble and the decision-making is closer in," which creates opportunities to be more responsive and creative. "They can listen, anticipate and react more fluidly than a *Fortune* 500 company," and that's no small thing.

Beyond that, "Smaller manufacturers can more effectively offer products that are customized to the preferences and palates of local consumers, and they can source local ingredients," says Morris. "Many consumers, especially Millennials and Gen X, are passionate about locally sourced products and ingredients and like to support brands from their region." So if you're a small manufacturer, play to your strengths.

In addition, says Todd Hale, principal at Cincinnati-based Todd Hale LLC, all manufacturers can help themselves by helping their retailer partners beat back threats by pure-play e-commerce retailers like Amazon, Blue Apron and Plated. They should also stay on top of hot trends — health and wellness, free-from, ethnic, etc. — and changing demographics. "As our population ages and becomes more diverse…manufacturers that connect at the extremes with niche, not mass-market products, will be the drivers of growth," he says.

MASTER THE BASICS

What else do retailers want from their manufacturer partners? First and foremost, they want suppliers to get the basics right — the blocking and tackling, as it were. At its simplest, that means the right product at the right time in the right place. But one of retailers' biggest complaints about manufacturers is their failure to accurately predict demand. "Good suppliers share insights that help retailers improve product forecasts and make smarter decisions around purchase volumes," says Morris. "They also help retailers minimize out-of-stocks with insights into delivery schedules, the impact

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— Bob Shaw

of the manufacturer's advertising and promotions calendar and enhanced forecasting data." An extranet that enables efficient data sharing between retailers and manufacturers is an invaluable tool, he adds. And manufacturers would be smart to stay on top of RFID technology.

Already prevalent at the carton and pallet level, RFID will eventually move to item level as well, allowing real-time visibility of inventory, reports Morris. What better way for suppliers to help their retailer partners reduce labor costs and improve inventory planning?

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Another increasingly important manufacturer role revolves around food safety. Recalls are costly not only in terms of dollars and cents but reputation, so more and more chains are looking for suppliers that have not only taken steps to prevent them in the first place but also have a well thought-out, immediate action plan in the event one is required.

"In addition to improving their own production and distribution processes," continues Morris, "Manufacturers can help retailers by providing guidance on food safety practices and technology that can track products and monitor temperatures to ensure the cold chain isn't broken." Because no matter which company is at fault, a recall hurts both partners.

Retailers also want manufacturers to help them create winning pricing strategies. In fact, according to Cadent's 2016 Industry Pricing Study, a whopping 96% of them believe pricing recommendations should be the No. 1 priority of their supplier partners. However, only 70% of manufacturers put pricing first, highlighting a critical disconnect. Even more alarming: while 72% of manufacturers believe retailers understand their recommended pricing strategies, only 46% of retailers say they actually do. As a result, reports Legocki, only about 30% of retailers end up using manufacturers' pricing recommendations. The only way to close those gaps is through better communication.

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DO YOUR HOMEWORK

"Without grasping what the retailer's goals are, manufacturers cannot begin to develop effective pricing strategies that the retailer will implement," Legocki explains. Too often, he continues, "Manufacturers develop strategies that are non-collaborative and one-sided, that meet their objectives but not the retailer's." So suppliers need to really dig in and find out what the retailer is trying to achieve, develop a pricing plan around that, and then — and this is critical — explain to buyers exactly how that strategy will help them meet their goals. "Manufacturers underestimate just how much retailers need to understand the 'why' behind the pricing," confirms Legocki. So it's important for suppliers to spend just as much time explaining pricing strategies as they do explaining why their product is a must-have.

What else about their supplier partners frustrates retailers? Package changes — box to bag, smaller or larger size, new dimensions, etc. — without any discussion of why it's happening or how it benefits the retailer or any transition plan, answers Shaw. Buyers are also bothered by "a constant stream" of new item introductions and line extensions, often without adequate consumer support or even testing, he reports. Retailers do not want to be their suppliers' guinea pigs. So manufacturers hoping to roll out a new product had better be prepared to sell it — to both the retailer and the shopper. How exactly will it help grow the category in that chain? How is it better than existing products? Who's going to buy it? And how do you know? Good partners can answer all of those questions. Bad ones…well, they probably won't be around for long.

Remember, says Morris, the balance of power has shifted to retailers. They've got the size and resources to create their own private brands, and thanks to loyalty card data, they're less reliant on manufacturers for shopper insights. Plus, more players are entering the CPG marketplace every day, looking for their piece of the grocery pie. And size is no guarantee of success. In fact, in certain segments, it's a detriment. The bottom line: Even the biggest, most powerful manufacturers (remember when Coca-Cola products couldn't get on the shelves at Costco…?) need to earn their place at the table. No one gets a free pass.

The good news for manufacturers that "get it" is that, despite dealing from a position of power, retailers really

do want to partner with them in a meaningful, mutually beneficial way. "Retailers that create situations where it's very difficult for suppliers to make a profit will become less relevant as time goes on," says Shaw. "I think they understand that competing for food dollars is a bigger, broader competition than it used to be. More channels, more choices, more non-traditional meal occasions, etc." So they need all the help they can get.

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Another bit of good news for manufacturers: a changing marketplace has opened many retailers up to more unique items that they may not have considered in the past. "Retailers are more receptive to taking calculated risks and finding creative solutions," says Shaw. "They're more willing to pioneer than they were in the early days of category management when everyone carried the same things." That's music to the ears of suppliers who complained bitterly for years about some retailers' unwillingness to take on innovative new items, regardless of merit. Of course, they still want proof that new products will sell, but there's been progress.

'Good suppliers share insights that help retailers improve product forecasts and make smarter decisions around purchase volumes.'
— Ken Morris

Times are changing, says Shaw. And retailers and manufacturers have to change along with them. "In order to survive," he concludes, "relationships have to become less 'transactional' and more about driving real growth or protecting existing market share. Real planning and real partnership will create bigger wins that are harder and harder [for retailers] to get." ■