



The changing landscape of grocery retail.

Why Supplier Engagement is now essential for competitive private brands.



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Introduction

Grocery sector challenges today

In 2015, mainstream private label retailers in the grocery sector are facing an increasing number of challenges from all sides. Online retailers are extending their reach into core grocery and due to the overwhelming amount of choice available, shopper loyalty is diminishing.

Customer feedback has exploded over the web and social media and shoppers are seeking more clarity and transparency about products and sourcing. Tech savvy shoppers are also demanding more innovative products, faster.

In the UK, grocery shoppers have changed their spending habits, shopping little and often. Big supermarkets are no longer appealing with more and more consumers preferring to shop from home.

This has led to a dramatic reduction in the physical space that supermarkets require. Plans to build supermarkets are being shelved and to add pressure on top of this, discounters are continuing to produce high quality products at incredibly low prices.

29% of shoppers



claim to be using superstores and hypermarkets less often than 2-3 years ago.*

Shopping frequency is increasing. In 2015 the average shopper buys groceries 26 times per month, up from 24 in 2014.*

*IGD ShopperVista.



Discounters are seeing increased loyalty

with 14% shoppers now using a discounter as a main store in 2015, up from 3% in 2010'.*

*IGD ShopperVista.



Across Europe, retailers face the threat of increasing advertising promotion of national brand products and the price gap to private label is narrowing.

In the US, retailers are striving to create lower-priced alternatives to national brands at equivalent quality. In a bid to defend bargaining power against national brands, the focus is turning to establishing exclusivity and differentiation for private label.



In the US, more than 80% of consumers feel that private label solutions offer as good or better quality compared to their national brand counterparts. *Information Resources, Inc.



US – 25% of consumers are buying brands that are on sale over their preferred brands and 23% are making product selections based on loyalty card discounts.

*Information Resources, Inc.

Here at S4RB we see an opportunity within private label to meet the varied and changing tastes of the consumer. We believe that the answer to the challenges for private brand retailers lies both within the supply base and within the retailer's capability to listen to the customer. If retailers can better engage with the ever-growing number of suppliers producing their own label products, there are benefits to be had.

Successful engagement with a large number of suppliers was one of the topics that was raised at the IGD's recent Big Debate conference in the UK. This was one of several common themes that emerged:

- ✓ **Retailers and suppliers need to work together as one team** to be successful.
- ✓ **Listening to customers and sharing this data with suppliers** is essential to get ahead of the competition.
- ✓ **Driving performance** around quality and innovation is key.

At the conference, Tesco CEO Dave Lewis stressed the importance of collaboration and transparency with suppliers and pledged to standardise payment terms in a bid to simplify its relationship with them:



By introducing a new standardised policy across each category for our larger suppliers, and shorter payment terms for our small and medium suppliers, it will help us to deliver a fairer, more transparent and consistent approach across our supply base." Dave Lewis, Tesco

Morrisons CEO Andy Higginson said that the grocery retail battle will be won by:



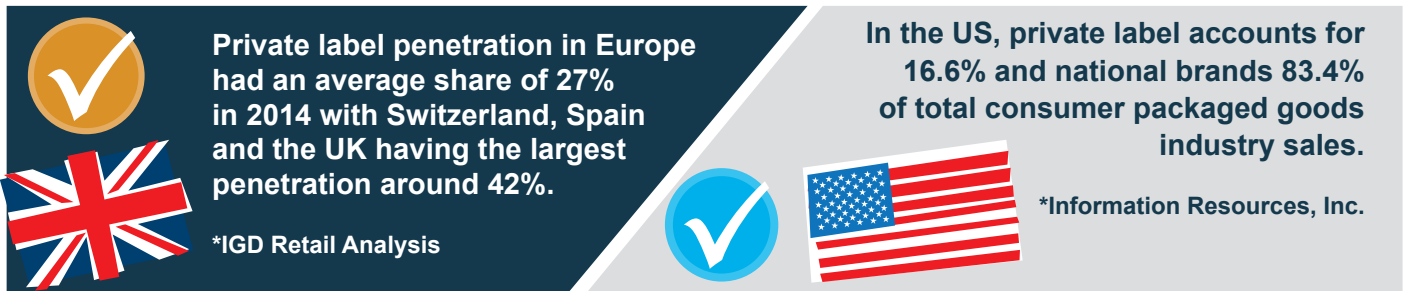
*listening and out-thinking competitors".
Andy Higginson, Morrisons*

In this whitepaper we will explore how retailers can work more effectively with their suppliers and analyse the wealth of data provided by the customer, to grow their private brands and as a result, gain that competitive edge.

Chapter One

Why Supplier Engagement is more than just managing suppliers

Large retailers stocking own-label products face many challenges when it comes to their supply base. This is mainly down to the high number of private label products. In most cases there are hundreds or thousands of products spread across a multitude of categories involving increasing numbers (often hundreds or thousands) of suppliers. This scale brings with it a new level of complexity which is unique to private label brands.



As we discussed at the beginning of this whitepaper, a method of delivering quality and competitive private label products is by better engaging with suppliers.

The difference between Supplier Engagement and Supplier Relationship Management

The term Supplier Engagement may well be familiar to those working in retail but many still aren't clear on the methodology and discipline that sits behind it and what the important differences are between this way of working and Supplier Relationship Management (SRM).

At the top level, SRM and Supplier Engagement are aligned in their approach and purpose. Both methods are:

- ✓ **Strategic**
- ✓ **Interaction-orientated**
- ✓ **Focused on maximising value**

Origins and applications

One key explanation for the differences between the two methodologies and where they are applied can be attributed to their origins.

SRM was born from, and remains heavily centred on **procurement and sourcing** which leads to the interactions focused on in SRM relating to the **performance of processes and systems** within the procurement and sourcing functions.

Supplier Engagement is simply **about making it easier for suppliers** to help you achieve your goals. It's ultimately about what makes humans understand and care enough to do something; it is about their motivation and understanding. Supplier Engagement is about **collaboration** and using this as a significant **driver of performance**.

This allows a much broader application of the Supplier Engagement methodology to any supplier-related process as the principles are applicable to any human interaction regardless of the process or purpose between an organisation and its suppliers.

Another common feature of SRM is the segmentation of the supply base according to their potential and actual strategic value to the organisation; it is about those key strategic relationships.

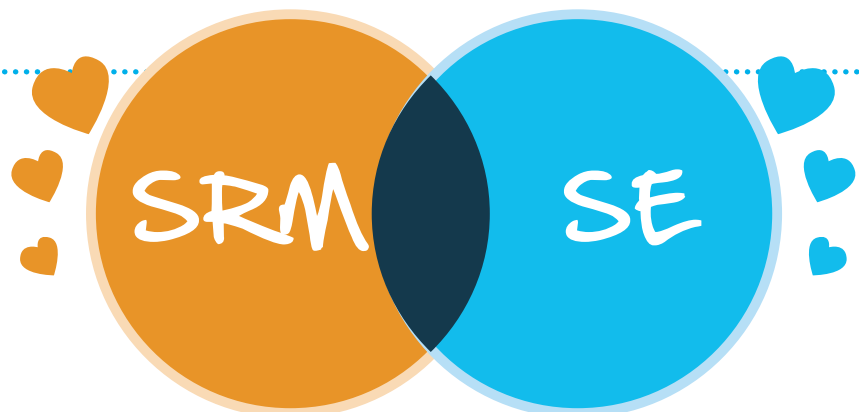
Supplier Engagement supply-base segmentation is determined by more immediate needs, rather than acting based on the type or perceived value of the relationship with any given supplier.

Beyond the shared goal of maximising and unlocking value, SRM and Supplier Engagement simply address different problems. And thus they can, and do, exist happily side-by-side.

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Retailers looking to better understand how to form the right strategic partnerships within their supply base will use SRM. Retailers looking to consume less of their valuable resource and reduce the support burden that comes with a large supply base through improved efficiency of supplier-related projects and processes, should look to Supplier Engagement.

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Chapter Two

Supplier Engagement and private brand retailers

What is supplier engagement?

Mike Coupe, CEO of Sainsbury's claims that they are not like Tesco when it comes to working with their suppliers:



We're rated number one (by industry body the Groceries Code Adjudicator) for supplier relationships. That means cooperation, and looking for opportunities together. That's fundamentally different to some of our competitors." Mike Coupe, Sainsbury's

Supplier engagement is the level of commitment a supplier has to a retailer's brand, values and goals. These goals could be short-term projects or taking suppliers on the journey to achieve long-term business objectives.

Supplier engagement affects the efficiency of every interaction between the retailer and its suppliers. The higher the supplier's engagement, the more efficient those interactions will be. These characteristics of supplier engagement mean the retailer spends less time and less resource whilst empowering suppliers to deliver.

The two key factors that influence supplier engagement are understanding and motivation:

- ✓ **The understanding of how to complete requests and tasks** set by the retailer or brand owner.
- ✓ **The motivation to prioritise the task** to complete it within the set time.

Understanding and motivation can be increased via effective communications, support and transparency.



Communications, support and transparency empower suppliers. They know what to do, why they need to do it, how to do it, how well they are doing it and what to do to improve. As understanding and motivation increase, empowered suppliers become engaged suppliers.

To deliver good communications the following must be considered:

- ✓ **People** – Who is the message being sent to? Why is it important to them? What are their needs and what are they doing as a result of the communication?
- ✓ **Talking** – What channels are being used for communication? What is the message and how is it being presented?
- ✓ **Listening** – How is feedback being collected and what is being done as a result of that feedback?

To deliver good support, the following must be considered:

- ✓ **Knowledge** – Is the information presented in a way that is easy to digest?
- ✓ **Channels** – How easy is it to find that information?
- ✓ **Accessibility** – Can suppliers access information when and where they need it?

Both communication and support must be underpinned by transparency:

- ✓ **Communications performance** – Has your communication been received, read, understood and acted upon?
- ✓ **Support performance** – How timely, accessible and easy to digest is the support provided and does it cover all areas?
- ✓ **Supplier performance** – How can suppliers track their performance against key performance indicators and learn how to improve?

The principles above are nothing new, having been accepted and applied to both customer engagement in public relations and employee engagement to drive efficiency and revenue across the globe.

The concept that is new is the application of this to supplier relationships. Supplier engagement has historically been overlooked despite the value of an individual supplier relationship being potentially many times greater.

Supplier Engagement in action

Grocery retailer Waitrose take great pride in the way they work with local and regional suppliers and the Waitrose Local and Regional Team take their responsibilities very seriously.

With the introduction of new Food Information Regulations (FIR) in 2014, Waitrose wanted to support local and regional suppliers through the required changes to ensure locally produced and sourced produce remained available for customers.

"Given the complexity of the FIR regulations we felt it was important to help suppliers understand their impact and the ENGAGE web portal from S4RB enabled us to support them through this process."

WAITROSE TECHNICAL MANAGER

"Waitrose was incredibly supportive. The information contained on the supplierENGAGE website was amazing and provided all the necessary answers. The approach Waitrose took was therefore extremely refreshing and provided a real boost to our business."

A WAITROSE SUPPLIER

Chapter Three

Working as 'One Team'

Suppliers within private label retail

Within private label retail, suppliers are such an essential part of not only the supply chain, but also product innovation, product development and quality assurance. Whether implementing a new system, embarking on a new business initiative, or simply performing a regular day-to-day task, motivated business partners play a key role in the retailer's success.

Quality supplier engagement can empower suppliers to increase their contribution to product quality and to product innovation – allowing retailers to effectively crowdsource solutions to many challenges via their large pool of private brand suppliers and to work together as 'one team' in order to compete with national brands.

**Crowdsourcing
reduces product
complaints by 17%**



KEY FACTS:

- ✓ **500+ private brand suppliers**
- ✓ **7,500 private brand products**
- ✓ **Complaint reduction of 17%**
- ✓ **Estimated saving of £200k per year**

Dave Lewis referred to working as "one business" with Tesco suppliers at the IGD Big Debate:



We will move towards more open, transparent and strategic relationships. We want to talk about us and our suppliers as being one business."

Dave Lewis, Tesco

Supplier self-help

A method of enabling this 'one team' culture is supporting suppliers with a self-help system. We've outlined the concept that the level of commitment that suppliers have to their relationship with the retailer is directly affected by the investment that they put into building the suppliers' understanding of how to deliver what they want. Understanding sits alongside motivation as one of the pillars of supplier engagement.

It follows that **supporting suppliers with helpful tools and knowledge** will have a direct (and positive) impact on the retailer's business. Investing in making relevant materials accessible to suppliers and providing quality comprehensive answers will not go unrewarded.

Empowered suppliers become more autonomous and efficient while also ensuring a 'one truth' approach to information which in turn assists quality, consistency and compliance. Furthermore, the retailer saves money by saving time, in our experience typically over \$150,000 per year, from not having to answer the same questions over and over, allowing limited resource to be maximised.

The supplier self-help principle

Supplier self-help is about giving suppliers convenient **24/7 access to the information and answers they need**, from training material and how-to videos, to FAQs and policy documentation.

Typically, this is delivered via a website or portal aimed specifically at suppliers. They can log on at any time and search for information on all sorts of topics that are relevant to them. This not only results in better informed and more efficient suppliers, but also reduces the volume of queries that the retailer ends up having to deal with by phone and email.

Any and every action that suppliers need to take can be supported and streamlined through the use of supplier self-help – whether they are trying to write a gold standard product specification, or need help understanding their latest supplier scorecard.

*Supplier self-help
web portal saved
retailer £180k
per year*

KEY FACTS:

- ✓ **600+ private label suppliers**
- ✓ **2,500+ answers viewed per month**
- ✓ **74% cost reduction**
- ✓ **Estimated saving of £180k per year**



Chapter Four

Ending the customer and supplier engagement divide

Why retailers must simplify their relationships with suppliers and end the customer and supplier engagement divide

As we mentioned at the beginning of this paper, Tesco's Chief Executive, Dave Lewis, announced a whole raft of measures which were ultimately about improving their supplier engagement.

It's no secret that Tesco has been lambasted in the press for the way they allegedly work with their many suppliers. That, in addition to the 'horsegate' scandal in 2013, gave Tesco's supplier-friendly credentials a battering in the eyes of consumers.

However, Lewis's announcement of new supplier operational processes and increased supplier support marks a clear and intentional change to Tesco's supplier engagement strategy. And for us here at S4RB, the reason is clear:

Tesco understand that supplier engagement can no longer be separated from customer engagement.

Consumers appreciate values more than ever

Internet shopping and the rise of discount supermarkets has initiated an explosion of choice, facilitating the rise of the 'conscious consumer'. Accompanied by social media's unavoidable brand transparency, this shopper has to buy-in to a brand before they buy what they're selling.

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30 second snippets of branded stock footage and race-to-the-bottom pricing are no longer enough to command loyalty.
.....

Every element of a brand's identity has to reinforce what the retailer stands for. Do they care about giving back to the community? Do they care about the environment? Do they invest in the people who help make their business a success? For the conscious consumer, actions speak louder than words. Retailers must recognise that the way they treat their suppliers needs to reflect the values that they promote to consumers.

Suppliers are customers too

Private brand supermarket retailers boast a supply base comprised of thousands of companies, with each supplier employing anywhere between dozens and hundreds of employees. Add these together with the families of the suppliers and you are looking at millions of customers across the UK.

By neglecting supplier engagement, retailers are neglecting a group which potentially hold peer-to-peer influence of a million UK consumers or more. By building mutually rewarding relationships with their suppliers, retailers can create an army of brand champions and advocates in the process.

Race-to-the-top innovation beats race-to-the-bottom pricing

Despite grocery retailers cutting prices racing to the bottom, consumers still have an appetite for spending money, look at the success of iPhone and iPad sales. Consumers certainly aren't rushing out to buy cheap canned tomatoes.

For retailers left in the uncomfortable squeezed middle of supermarket retail - not quite competing on price with the discounters and losing out to higher-end retailers on quality and provenance, a prudent way to respond is with innovation.

Joanne Denney-Finch, CEO of IGD, talked at the Big Debate about exciting innovations to capture the interest of the shopper: beer for women with added collagen! Anti-aging chocolate!

UK discounters and convenience stores are key beneficiaries of behavioural change, with monthly penetration and frequency rising.

**IGD ShopperVista.*



By enabling more efficient and effective interactions between retailers and suppliers, successful supplier engagement will allow retailers to focus on more value-add activities. Or as Dave Lewis of Tesco said:



We want to work with our suppliers to get back to innovating on behalf of our customers and these changes will make it easier for us to do that."

Dave Lewis, Tesco

Retail teams who implement Supplier Engagement will be able to spend significantly less time administering suppliers and more time developing quality products and building supplier relationships to become the partner of choice. This delivers an obvious competitive advantage.

If successful, Supplier Engagement will help the retailer to:

- ✓ **Mobilise** hundreds of thousands of brand advocates
- ✓ **Strengthen** consumer brand loyalty
- ✓ **Improve** the efficiency and effectiveness of their interactions with suppliers
- ✓ **Unlock** supplier expertise, experience and innovation by becoming the partner of choice

However, there needs to be a cultural commitment and consistency within the retailer to make the relationship with suppliers stronger than ever.

The future of the retail industry is clear: customer engagement and supplier engagement can no longer be separate.

Chapter Five

Listen and innovate. Customer experience is everything

It was highlighted at the IGD Big Debate that according to IGD, 75% of shoppers in the UK have a good shopping experience. Kieran Forsey, Director of Unified Brand Experience at S4RB says this is all very encouraging but customer experience is not just about the shopping experience, it is also about the brand experience...



...to get shoppers to buy and come back and buy again is more about the brand (or product experience) than it is about the shopping experience. Look no further than Aldi and Lidl, they are not famous for a great shopping experience, but they are for a great brand experience, amazing products and incredibly low prices. Shoppers are responding to this in their droves."

Kieran Forsey, S4RB

We live in a world where social media, mobile and the web are giving rise to a new form of empowered consumer. They research their options, voice their opinions and hold powerful spheres of influence. The noise from customers is increasing and social media is turning up the volume. Forward thinking retailers and brand owners know this and they are seeking ways to improve their customer experience across all channels of communication.



Customer decisions and behaviours are driven increasingly by opinions, tastes and preferences of an exponentially large, global pool of friends, peers and influencers." – A.C. Neilson

Impact of positive word of mouth effect:



- ✓ Fans purchase twice the amount of a product vs an average customer
- ✓ One fan's influence can cause three potential customers to buy the product
- ✓ Positive experience with a product will lead to purchasing other products with similar attributes/features*

Source: Zuberance.

Retail brands can thrive in this new world if they can find a way to embrace omni-channel retail, turn campaigns into conversations and improve the content, accuracy and quality of conversations creating an outstanding customer experience.

B&Q are one such retailer who have made a commitment to work as one team and create a great customer experience by "focusing on and working closely with local customers."

There has been a staggering increase in the influence that consumer generated content (CGC) has over purchasing decisions both online and offline. This is according to a study by bazaarvoice, a leading social media monitoring service. **The report reveals that 71% of consumers indicate that CGC influences their decision to purchase.**

The importance of listening

CGC is the online record of what customers are saying about products – it's basically any piece of online customer feedback – both good and bad. This feedback could be a website review, a post on Facebook between friends or a comment on a forum. With increasing numbers of consumers conducting online research before making a purchase, it has never been as important for retail brands to listen in to the chatter.

Gain 'one view' of product performance

Online customer feedback is now an essential part of any product's performance. Utilising feeds from services like bazaarvoice along with other product performance sources such as product testing results, in-store and call centre feedback and sales data, can give 'one view' of product quality performance, giving retail brands clear commercial advantages.

Understand and drive product quality

Having 'one view' provides product, brand and quality managers with the ability to see the complete picture of product performance, helping to answer questions such as: What are my customers saying? What do the testing results say? How is this reflecting in my sales? It also helps them to fully understand and drive the quality of products.

Improve product launch success

Similarly, brand managers are empowered through direct access to good and bad customer feedback. When combined with sales data for their products it can improve decision making on product development and new product introductions – What can I do differently on my next product launch to increase success?

Software helps launch private label products 10% quicker



KEY FACTS:

- ✓ **Suppliers on-boarded 30% faster**
- ✓ **80% reduction in training management**
- ✓ **10% faster launch of new products**
- ✓ **\$325k per year increase in sales**

The question

The value and necessity of bringing together all of these insights into one place creating 'one view' of product performance is unquestionable. We suggest that the true question is: are you going to do it first or are your competitors?

Chapter Six

The answer is Unified Brand Experience

At the IGD Big Debate, Chief Executive of ASDA, Andy Clarke, stressed the need to work with suppliers to innovate more for customers.

Giving the retailer and their suppliers access to **one view** of all the data around their private brand products allows a collaborative way of working focussed on the needs of the customer. This leads to a consistently authentic and engaging experience for customers, something we call a **Unified Brand Experience**.

Achieving a **Unified Brand Experience** is an **improvement journey**. As with anything worth doing it is challenging and takes time, combining development and enhancement of customer experience, and leading edge techniques and methods that deliver world-class supplier engagement.

UBX: Integrating and involving suppliers

Retail brands that deliver a Unified Brand Experience integrate and involve their suppliers in customer engagement activities so that they don't waste these opportunities.

- ✓ **Suppliers have access** to every single complaint or compliment about their products.
- ✓ **Retailers are empowered** to harness the experience and expertise of the supplier to understand and address issues quickly and comprehensively.
- ✓ **Customers receive** an unparalleled level of customer service and are compelled to shout about it.

A retailer or call centre handling calls for 5,000+ own-label products cannot reasonably be expected to investigate every complaint, even though each one really should be followed up.

That is the value of UBX: connecting suppliers to customers in this strategic way nurtures a culture of brand consistency, product innovation and unparalleled customer experience – placing the brand in a league of its own in the eyes of customers.

Something amazing happens when suppliers are integrated and involved in customer engagement activities.

Customers become brand advocates:

- ✓ They receive quicker responses from customer care
- ✓ The responses they receive are more consistent, comprehensive and accurate
- ✓ The retailer becomes indispensable by inviting them to become a part of the brand and shape it through product testing, consumer reviews, benchmark panelling and innovation forums

Suppliers become brand champions:

- ✓ The feedback they receive enables them to instantly identify weakness and improve
- ✓ The insights they receive empower continuous improvement and innovation
- ✓ The enlightened retailer becomes their partner of choice by sharing mutually beneficial market intelligence

Whatever their chosen channel, whatever their relationship with the retailer – the brand is not only consistent but consistently engaging. **And this is UBX – Unified Brand Experience.**



Chapter Seven

Conclusion

Why there is a need for supplier engagement

This paper was inspired by the synergy between the themes raised at the 2015 IGD Big Debate and the supplier/retailer relationship model that we champion here at S4RB.

As retailers begin to understand that supplier engagement can no longer be separated from customer engagement, they must look below the tip of the iceberg to find the data that will enable them to improve and differentiate from their competitors. Currently, retailers are only concerned with the data relating to potential high risk complaints. They don't have the capacity or the processes in place to look at the rest of the iceberg. A wealth of powerful customer messaging is sitting below the water, hidden away from the quality and brand managers and product developers who could use it to set their private label products apart from the competition.

Seeing the rest of the iceberg is what we have been talking about throughout this whitepaper, utilising suppliers to effectively crowdsource quality and product management in order to understand consumer feedback, and product performance monitoring to drive improvements and a great customer experience. Suppliers are experts in their field and the suppliers are the people who know how to deliver the products that the customers want. Suppliers remain an untapped resource, presenting a real opportunity for innovation and growth.

The importance of supplier engagement for retailers with private label products really can't be overstated. Working together with suppliers, many retailers have successfully developed a range of private label products that keep customers coming back to their stores time and time again. But no matter how well they are doing, retailers need to continually invest in making their working relationships with suppliers the best they can be.

At a time when retailers are having to review internal costs and operations, supplier engagement offers the opportunities for both cost reduction and operational efficiency. By enlisting the help of suppliers, retailers increase the overall size of their effective private brand team and ultimately, improve own label performance.

Contact us

Solutions for Retail Brands work with private brand retailers, helping them to deliver quality and competitive private label products by better engaging with suppliers.

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