Efficient Consumer Response Australasia (ECRA)

Conference Report 2009

Working TOGETHER for the Shopper

AUSTRALIAN FOOD AND GROCERY COUNCIL

ECRA supported by the Australian Food and Grocery Council

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The ECRA Conference

October 22 and 23 2009 saw the inaugural ECR Australasia conference take place in Sydney. The event also served as a celebration of 10 years of the ECR movement in the Australasian marketplace. The conference was keenly attended with in excess of 150 delegates taking the time out to network and to hear presentations from international and locally based experts.

This report offers a snapshot review of the key topics discussed over the 2 days.

The ECRA Board of Directors

ECRA is managed by a Board of Directors encompassing senior managers from both Retailer and Supplier organisations in Australia and New Zealand. The Board is responsible for determining the agenda for the conference, and many of the Board were active participants throughout the event.

Martin Drinkrow (Chair) *Clorox Australia Pty Ltd*
Gary Tempany *Metcash Trading Ltd*
Matthew Foster *Procter & Gamble Australia Pty Ltd*
Sarah Kennedy *Vitaco Health Ltd*
Steve Anderson *Foodstuffs (South Island) Ltd*
Mark Payne *Coca Cola Amatil Ltd*
Paul Harker *Woolworths Ltd*
Murray Johnston *Progressive Enterprises Ltd*
Tristram Wilkinson *Kimberly-Clark NZ*
Matt Swindells *Coles Group*
Kevin Jackson *Sanitarium Health Food Co*
Dale Jordan *National Foods Ltd*
Bevan Hillen *Patties Foods Ltd*
Stephen Ray *Nestle Australia Ltd*
Katherine Rich, *NZ Food & Grocery Council*

Pictured back row l to r: Kevin Jackson, Mark Payne, John Cawley, Murray Johnston, Dale Jordan, Stephen Ray, Paul Harker, Bevan Hillen. Front row l to r: Matt Swindells, Samantha Blake, Martin Drinkrow.

Thursday 22 October 2009

Martin Drinkrow, General Manager, Clorox Australia Pty Ltd, ECRA Board Chair

In welcoming delegates to the conference, Martin reflected on the scale of the industry in Australasia and the level of impact that the ECR activities have had in reducing cost and inventory in the market over the past 10 years.

Martin went on to highlight the road ahead for ECR in Australasia, with activity focused on such key areas as On-shelf Availability, Retail Ready Packaging and Loss Prevention all firmly on the current agenda.

Natalie Berg, Head of Grocery Research, Planet Retail

Providing an insightful overview of the current and future states of global retailing, Natalie highlighted key considerations for the industry. Firstly that food inflation is here to stay as world demand is set to dramatically exceed supply with the global population to rise by 3 billion people by 2050. Natalie noted that there has been a move to "value" pricing to meet the current economic difficulties but that this could not be maintained. There will be a greater requirement for Retailers and Suppliers to work closer together and become extremely shopper focused as stores become tailored to local shopper needs. Finally, Natalie flagged a trend towards diversification by retailers across channels, with growth in discounter and "small box" stores likely.

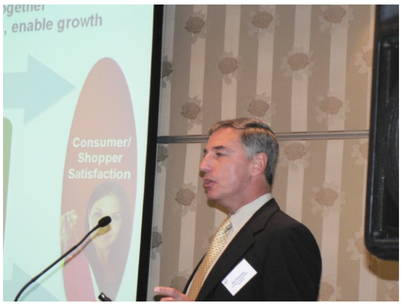
Chris Percy, Managing Director, Consumer Group, Nielsen Pacific

Chris discussed the impact on the local industry of the global recession, how consumers have changed their habits, including the "Master Chef" effect, which has seen a move from eating out back to home cooking, and what is likely to occur as conditions improve. Chris shared metrics from a recent Nielsen survey of consumers, including their concerns and the ways in which their shopping habits have changed. Chris went on to provide insight on the rise of private label brands in the marketplace, with the prediction that this would grow again in 2010, and to the importance of considering the television, computer and mobile phone as part of a 'three screen' approach to marketing.

Sabine Ritter, Integration Director, The Consumer Goods Forum
Jim Flannery, Managing Director, Customer Development, Procter & Gamble Global Operations
Marc Childs, Director, Childs Davidson

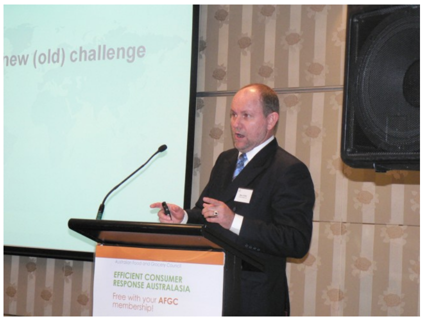
In a joint presentation, Sabine firstly discussed the work of the Global Commerce Initiative (GCI) in identifying eight key trends which will greatly impact the value chain through the 10 year period 2006-2016:

- Declining economy driving the need for innovation
- Societal changes including urbanization, aging population, a new middle class and low income population growth
- The rising cost and scarcity of raw materials
- The increasing awareness and importance of social, financial and environmental sustainability
- Growing consumer access to technology
- Changing business models
- Growth in availability of supply chain information
- Increased levels of concern over product safety



Jim went on to comment on the current issues the industry faces, including excessive SKU counts, high inventories and lack of improvement in out-of stocks, as well as the need to eliminate the issues that currently dominate retailer and manufacturer engagement such as trading terms negotiation and issues management which stop the business partners focusing on consumers.

Jim then introduced a new framework for doing business called *New ways of Working Together* which provides business partners the 'Hows' of getting things done.



Marc explained the demise of the 'Golden Age of Brands' and the realities of the new 'Age of the Shopper'. Marc described what the business environment would look like if suppliers and retailers focused on the shopper, and introduced a business model for such an environment, as well as the required enablers to make it happen.

The key messages from this session included that true collaboration will become a business imperative, that innovation must be rapidly applied and that new management capabilities will be required as well as new ways of working together over the next decade.

Paul Harker, Head of Replenishment, Food & Liquor, Woolworths Ltd
Matt Swindells, General Manager, Replenishment, Coles Group
Adam Arnold, National Buyer, Supplier Development, Metcash Trading Ltd

A highlight of day one of the conference was the appearance of Australasia's three largest grocery retailers all represented on stage together in a joint presentation to delegates. The topic of discussion was the decrease in service levels, and flow on to product availability on shelf, that the retailers experience in January each year. This topic is one that the ECRA Board has embraced and has been elevated to a high level of focus in the industry over the past 6 months.

Matt described the service level drop the retailers had experienced in January 2009 and the commercial implications as well as shopper impacts. His was a 'call to arms' – " …if we can fix the issue we can all win in January".

Adam then discussed collaborative work that had taken place under ECRA through 2009, highlighting a *Winning in January* workshop in March, which included an examination of issues and their causes along with solutions that could be applied, and resulted in a guide being developed for industry.

Finally, Paul talked about seven key steps that had been identified through ECRA focus that would help industry partners to win in January. Paul highlighted the actions that retailers were taking within their businesses to prepare for January 2010 and challenged Suppliers to ensure they were also making the necessary changes in their businesses and preparing to track performance against the issue throughout January 2010.

Stephen Ray, Oceania Supply Chain Director, Nestle Australia

Having heard the retailer perspective around service levels in January, Stephen provided a suppliers point of view. Stephen spoke passionately about what winning in January meant to his company, Nestle Australia, as it sought to provide a better deal for the shopper and better service to the retailers.

The key messages included the need for a holistic approach including retailers, manufacturers and upstream suppliers of raw and packaging materials so that the total value chain can deliver. Stephen then described the approach Nestle were taking to address the issue, which included both short term actions to increase flexibility as well as longer term cultural and process changes.

Paul Harker, Head of Replenishment, Food & Liquor, Woolworths Ltd
Steve Mitchell, Customer Supply Chain Manager, Unilever Australasia

In the first in a series of joint retailer/supplier presentations, Paul spoke about Woolworths' strategies to increase on-shelf availability of products to its shoppers, including process and systems changes that will improve the accuracy of promotional forecasts. Steve then related a project that Unilever had recently undertaken with Woolworths to test the accuracy of store level perpetual inventory (PI)data. The findings highlighted that overall data accuracy was very high, though the actual accuracy levels fluctuated during the day. Overall the project was a success with several valuable learnings. The next opportunity is to scale the data and move to using PI as a basis of determining availability on shelf to shoppers.

Lou Jardin, CEO IGA Distribution, Metcash Trading Ltd
Chris Bradley, Associate Principal, McKinsey & Company

Lou took the opportunity to comment on the strong service levels that Metcash was currently enjoying from its supplier base and the improvement that has occurred in this respect. He then introduced Chris who spoke on the topic of food safety. Chris highlighted the critical nature of food safety in an ever more global business environment, and the need to understand the hot spots in the value chain. Recent international studies are assisting in this regard through clustering supplier countries based on sanitation levels, regulation, cold chain infrastructure, producer sophistication and consumer awareness.

Matt Swindells, General Manager, Replenishment, Coles Group
Steve Mickan, General Manager -, Coles Group, Coca Cola Amatil Ltd

Matt spoke of collaboration between Coles and its suppliers, highlighting the three stage collaborative platform Coles employs with Suppliers – starting at entry level partnership, moving on to collaboration, and ultimately to a transforming relationship. Matt particularly highlighted the valuable role of VRPs as a key link between Coles and its suppliers' businesses. Steve then described a project Coca-Cola Amatil (CCA) was undertaking with Coles that used data to identify opportunities to improve availability of product to shoppers in summer. This focuses on product, period (time) and place data, with the output being a highly targeted store list for up-weighted product stock levels. This was an interesting example of using climatic and demographic data which could be tailored and applied to various product categories in the CCA range. Steve and Matt commented that trust was a key component of the partnership which focused on the needs of shoppers rather than pushing volume into stores.

ECRA Board Panel Session

Day one concluded with a panel session. The panel comprised of both retailer and supplier executives and was expertly facilitated by Patrick Medley of IBM. Many topics were covered, with a range of interesting questions being raised by delegates. Among the discussion points were:

- An exploration of the issue of January 2010 service and how the industry could win in January.
- The nature and importance of developing trust and openness in communication.
- The potential need for paradigm shifts as the industry finds itself in a more '24/7' environment.
- The impact of international retailers entering the Australasian market.

Craig Woolford, Director, Consumer Sector Research Citi

Craig provided a market analyst's perspective of the Australian food and grocery industry, firstly describing key trends including population growth impacts, food price inflation, the shift back to home cooking, and the impact of Aldi in the Australian market. Craig then undertook an informative review of where he saw Woolworths, Coles and Metcash's strategies heading in the coming months and years, as well as the rise of private label and potential for new retailer market entrants in Australasia.

Carter McNabb, Partner, GRA

Carter discussed the balance between inventory optimisation and service levels and the role of demand planning in achieving the ideal outcomes for both. He gave graphic examples of the pitfalls of using averaging in demand forecasting and how organisations could use the Sales and Operations Planning (S&OP) process to drive better results through disciplined communication and ownership.

To demonstrate this, Carter described the amazing turnaround in the Bonland business over just 12 months through enhanced supply chain process such as S&OP and through implementing and tracking KPIs that then allowed for powerful business decision making.

Roger Jackson, Managing Director, Advantage Group Australia

Roger spoke firstly of the dynamics of shopping in Australia. He highlighted the competitive intensity in a market where shoppers visit several retailers during a single shopping trip and described the top shopper requirements as shown by recent surveys. Roger then discussed work that his firm is undertaking to determine how well retailers and suppliers are working together to achieve target outcomes in Australia, noting where the strengths and weaknesses were currently and in comparison with overseas markets. Roger stated that suppliers must be aware of what retailers most want from them, including:

- Longer term thinking
- Objectivity and a category focus
- Strong account management talent – decision makers
- Internal alignment prior to engagement
- Tailored approaches to the retailer's individual needs

Ian Wilson
Director, South East Asia, Mintel International

Ian posed the question "what does it mean to innovate?", and noted that 90% of all new products launched will fail. He explained the value of "stealing with pride", particularly when looking outside of your category! Ian discussed the most common product claim areas in 2009, being Health and Wellness, Premiumisation, Convenience and Environmental friendliness, before showing the delegates a range of many of the most innovative products launched recently around the world.

Jack Hanrahan, General Manager, Retailer Relations, Westfield

Jack took delegates on a virtual tour of the world, with his review of the Westfield World Retail Study Tour of 2009. Destinations included New York, London and Tokyo, starting with a roll-call of companies who were drowning (or worse!), treading water, or swimming strongly in these turbulent times. Key trends emerging amongst retailers who are thriving included:

- Retail Story Telling – communication directly with customers
- 'Brandtailing' – Suppliers moving into retailing (Apple Stores for example)
- Technology – use of mobile technology to share purchase plans with friends
- 'Greentailing' – establishing the sustainability "high ground"
- Experiential – staff engagement and brand experiences whilst shopping
- Service as a Product – moving beyond retailing stock and into service realms
- Form "Careless" to "Considered" - "customer hyper-care"

Friday 22 October 2009 (cont'd)

The conference concluded with Martin Drinkrow reconfirming ECRA's commitment to delivering improved efficiencies and reduced costs within the value chain. He urged delegates to focus on January 2010 as an industry through ECRA, with trading partners, and within delegates own organisations. ECRA are committed to providing an industry wide review of January 2010 results and identifying further areas of opportunity.

We would like to again thank our Conference Sponsors for their participation in the ECRA 2009 Conference.

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