ECRA Annual Supplier and Retailer Convention

CONVENTION REPORT

2011: RISING TO THE CHALLENGE OF A NEW RETAIL LANDSCAPE

27–28 October 2011
Amora Hotel Jamison Sydney
Sydney, NSW

Supported by the Australian Food and Grocery Council

www.ecraustralasia.org.au

Efficient Consumer Response Australasia (ECRA)

Convention Report
2011: Rising to the challenge of a new retail landscape

ECRA Convention 2011

The Third Annual Efficient Consumer Response Australasia Supplier and Retailer Convention was held at the Amora Jamison Hotel in Sydney on 27-28 October 2011. Over 160 delegates took the opportunity to view presentations from local and international fast moving consumer goods (FMCG) industry experts and to network with colleagues, peers and business partners.

The title of the convention "Rising to the Challenge of a New Retail Landscape" encapsulated the key theme over the two days – recognising that the next decade in FMCG/Retail will look very different to the previous, and considering the issues and opportunities this will bring from both a global and local perspective, and from both the retailer and supplier points of view.

The Board of ECRA expresses its thanks to all speakers and organisers, and particularly to the delegates for making this year's convention a success. ECRA looks forward to continuing to fulfill its role as the only industry body that brings together suppliers, retailers and wholesalers to promote industry-wide initiatives in the value chain that deliver benefits to the industry and the shopper.

ECRA Board

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 convention, and many of the Board were active participants throughout the event.

Martin Drinkrow (Chair) Clorox Australia Pty Ltd
Andrew Blew General Mills Australia Pty Ltd
Alastair de Raadt Cadbury NZ
Graham Dugdale Simplot Australia Pty ltd
Peter Elms Woolworths Ltd
Matthew Foster Procter & Gamble Australia Pty Ltd
Gijs Faber Foodstuffs (Auckland) Ltd
Murray Johnston Progressive Enterprises Ltd
Katherine Rich NZ Food & Grocery Council
Alain Moffroid Unilever Australasia
Mark Payne Coca Cola Amatil Ltd
Rob Scoines Sanitarium Health Food Co
Matt Swindells Coles Group
Gary Tempany Metcash Trading Ltd

Thursday 27 October 2011

Martin Drinkrow (General Manager, Clorox Australia, NZ and South Africa / Chair of ECRA)

Welcome

In his welcoming address, Martin noted that a great program had been assembled for this year's convention, particularly relevant to the challenging trading conditions facing suppliers, retailers and shoppers alike. Martin encouraged delegates to take the opportunity to network during the convention.

The strategic platforms underpinning ECRA were noted by Martin, including On-shelf Availability, Retail Ready Packaging, Loss Prevention and Business Information Standards. Martin asked delegates for their continued support in assisting ECRA to in turn support the industry in these important business areas.

Tarun Patel (Head of Supply Chain, ECR/IGD UK)

Taking a Supply Chain Gamble

Tarun spoke firstly of the volatility our industry faces globally in respect of climatic conditions putting pressure on costs whilst eroding consumer confidence, and then the more business related stresses faced by the supply chain, including promotions now being the norm, sophistication within retailer supply chains and the impact on suppliers, and pressures on lead times and inventory.

Tarun then turned to the exciting new innovations taking place within global supply chains to facilitate on-shelf availability and provided insight as to how leading suppliers and retailers are collaborating for mutual benefit in areas including transportation efficiency, sustainability and new uses for technology. Tarun concluded by provided a list of steps trading partners can follow to succeed in collaborative efforts.

Kosta Conomos (Executive Director, Pacific Retailer Services The Nielsen Company)

A Decade of Change: What Lies Ahead

Kosta reminded delegates that the reason their businesses exist is primarily to serve consumer wants and needs. The consumer's world is rapidly changing, and Kosta provided a snapshot of what this means to our industry framed as "the good, the bad, and the ugly" from the viewpoints of suppliers, retailers and consumers. To emphasise these changes Kosta reviewed the past decade which was dominated by retailer supply chain programs and resulting shifts in market share before turning attention to the future where "what shoppers want will be critical".

In Kosta's view, shoppers want quality fresh product, lower prices - including through private label - and innovation. Suppliers will need to focus attention on multi-channel strategies, developing control brand and/or private label brand strategies and active consumer targeting. For retailers, enhancing private label offerings, providing restaurant brands and developing strategies to manage the growth of hard discounter and on-line channels will be key.

Thursday 27 October 2011

Paul Digweed (Retail & Consumer Products Industry Leader A/NZ IBM Global Business Services)

The Global Retailer Perspective and Challenges

Paul proclaimed that the balance of power has shifted from the retailer to the consumer, and that the smarter consumer was instrumented, interconnected and intelligent. Paul noted that consumers' requirements were: serve me, listen to me, know me and empower me, and that those companies who can meet these requirements would benefit from consumer loyalty.

Paul noted key retail trend as being around increasingly empowered consumers, changing consumer spending patterns and preferences changing demographics, renewed pressure on margins, improved technology driving innovation, private label fuelling growth and the emergence of new business models and competitors. Paul finished by describing the ways in which smarter retailers will respond to these emerging trends.

Tony Borg (Vice President Group Supply Chain, Nestlé)

Supply Chain Collaboration – a Global Perspective

Tony took delegates on a tour of the history of Nestle – the world's largest food company – with an underlying

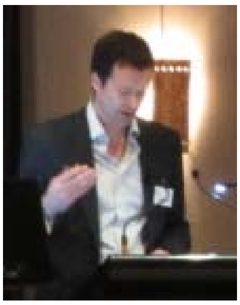
theme that "you stop listening to your consumers at your peril", before explaining the complexities of managing global supply chains and the benefits received from engaging in global and local industry associations to help drive collaborative best practices.

Tony then turned his attention to sharing a broad range of case studies highlighting collaborative efforts Nestle has undertaken in its supply chain around the world. These included both with customers and also with competitors, reminding delegates that we are moving into an era where supply chain collaboration will be critical as consumers will force this in areas such as sustainability and waste reduction.

David Bissett (Program Manager Project ARC, Coles)

Active Retail Collaboration

David spoke of Coles' Active Retail Collaboration Program – ARC, one of Coles' "Big 6" initiatives as part of its Supply Chain transformation program. David discussed the value that Coles believe its suppliers will receive



through collaboration including in on-shelf availability and in supply chain efficiencies, provided barriers such as lack of trust and lack of commitment to change at pace can be overcome.

David described the model underpinning the ARC program which sees relationships with suppliers as either Transactional, Collaborative or Preferred and the level of benefits proposed at each relationship state. David also noted Coles' new Supplier Charter and how this, along with ARC, plays a role in Coles' ambition to move their supply chain from

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Jenny Mowatt (General Manager – Health & Wellbeing, Woolworths)

Working Together to Deliver Health & Wellbeing Products for our Customers

Jenny raised the question "How do we jointly meet the increased demand from consumers for healthy food choices?", considering both ways in which healthy foods are defined and ever increasing consumer demand for specific dietary requirements against which retailers are needing to react accordingly.

Jenny described the process Woolworths are undertaking to meet the challenge. The process includes firstly the development of healthy products with its supplier base, then providing reliable, simple and usable information about the products such as the Daily Intake Guides, and then finally communicating effectively with consumers – giving them the information they are looking for.

Silvestro Morabito (CEO, IGA–Distribution)

Collaboration, Innovation, Honesty

Silvestro described the market in the eyes of the independent grocery trade, including many challenges business face in a changing environment. He went on to discuss the positioning of IGA as being "How the Locals Like it" and the cultural shift being undertaken at IGA in getting aligned behind this statement.

Silvestro then detailed the ways in which the various IGA channels would ensure that opportunities to leverage synergies could be optimised, the key attributes of the IGA brands, and the critical relationships with IGA's stakeholders. Silvestro's aim was to drive decision making closer to the shopper. Silvestro flagged that IGA wanted supplier relationships that delivered innovation, differentiation and collaboration supporting the vision of "how the locals like it" which would be achieved through activity such as IGA's new "Project Engage" with suppliers.

Kate Carnell AO (CEO, Australian Food and Grocery Council)

A Perfect Storm

Kate described how Australia's largest manufacturing sector – Food and Grocery - is currently facing a 'perfect storm', consisting of issues around the current political situation and increasing regulation, tough economic conditions for business and consumers alike, a difficult trading environment driving serious margin pressures for suppliers, and the need to meet any ever more critical range of social and consumer trends.

Kate highlighted the dilemma whereby it is currently costing suppliers more to produce at the same time that consumers are looking for greater price discounts, which is leading to margin erosion. The message was clear – the future will not be like the past and won't be easy. Industry needs to focus on innovation to meet consumer desires and explore other non-traditional channels to market.

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Industry Panel:

Kate Carnell, Australian Food and Grocery Council
Adam Arnold, Metcash Trading
Gordon Duncan, Woolworths Ltd
Matthew Foster, Procter and Gamble Australia
Alain Moffroid, Unilever Australasia
Graham Dugdale, Simplot Australia

Executives from Woolworths, Metcash, Unilever, Simplot, Procter & Gamble and the AFGC took questions in relation to how suppliers and retailers might work together collaboratively to build profitable strategies moving forward.

Topics addressed included how to remove supplier/retailer disconnects in meeting the needs of consumers, the most critical areas for supplier/retailer collaboration (on-shelf availability, shopper data utilisation, growth focus, forecasting, and data alignment), how to cut through with basic enablers, the role of brands in an environment of increasing private label activity, and the cost and environmental impacts of shelf ready packaging.

Brett Griffiths (2009 Joe Berry Award Winner) Business Manager Perishables, Woolworths Ltd

Joe Berry Australian Retail Executive Award

Brett described some of the highlights he experienced on the overseas retail study tour he undertook as his prize for winning the Joe Berry Award for 2009, covering both Hong Kong and the USA.

Standout grocery retail businesses Brett noted included Wegmans, Trader Joes, H.E.B, Aldi and Wholefoods, with Brett's key takeout being the power of the people involved in those businesses as the driving force behind their success.

Mark McCrindle (Director, McCrindle Research Pty Ltd)

The Changing Shopper Demographics

Mark investigated five key trends in changing Australasian shopper demographics, starting with the population changes in terms of size, age patterns, diversity and mobility. The second trend encompassed new household structures and segmentation, including changing life stages and associated transitions.

Thirdly Mark examined the transition between the different generations from builders and boomers, through to generation X, Y and Z, followed by a review of emerging influences on consumers and the roles of innovation, recommendation, and authenticity in modern decision making. Finally Mark discussed effective engagement and the need to engage customers both cognitively and emotively.

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Tara Lordsmith (General Manager Marketing, Simplot Australia Pty Ltd)

Rising to the challenge of new retail landscapes

Tara provided delegates an insight to Simplot's business and how they communicate with consumers, noting that whilst traditional media remains important, marketing at the point of purchase is becoming critical, showing examples of how Simplot address this key aspect of their marketing strategy, and the challenging delegates with the question – "is that enough?".

Tara explained that the journey to purchase is not linear and that technology has shifted the game such that companies now need to engage pre, during, and post purchase with their consumers to "close the loop". Tara showed how Simplot was doing this with its Quorn brand before flagging some of the key challenges and opportunities that lie ahead.

Alain Mofroid (VP Customer Development, Unilever Australasia)

Sustainable consumption in a changing world

Alain advised delegates that sustainability has become a vital issue in a changing world citing climate change, population growth and expanding social responsibility as key factors. "The business case is clear" said Alain "increasingly customers and consumers want sustainability".

Alain then highlighted strategies adopted by Unilever to make a difference on a global basis including ethical sourcing, packaging and product innovation and eco-efficient operations. Alain noted that sustainability broadens and deepens collaboration and innovation between trading partners, before sharing Unilever's vision for the future and specific programs being implemented to achieve the vision.

Craig Woolford (Senior Analyst, Retail Sector, Citi Investment Research, Australia / NZ)

Citi Investment Research

Grocery Retailing During the Next Three Years

Craig examined the key issues facing grocery retailing in the coming few years, noting that currently we are experiencing flat rates of growth driven by increased household savings, food price deflation resulting from promotion, reductions in population growth, and cost of living pressures seeing shoppers become more value conscious. Craig noted the ongoing reliance on price promotion as the retailers look to win the war of price perception in shoppers' minds.

Craig described the growth priorities for retailers, including rise in private label contribution, development of alternative formats, lowering supply chain costs and opening new stores. Craig concluded the presentation with individual reviews of the outlook for Woolworths, Coles and Metcash form the analyst perspective, with underlying themes being a continuation of price volatility, focus on price perception of shoppers and utilising product and channel mix to drive growth.

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Paul Digweed (Retail & Consumer Products Industry Leader A/NZ, IBM Global Business Services)

The Challenge and Role of Brands in a Private Label World

Paul discussed the different levels of private label maturity in penetration between the UK and ANZ markets, noting sales of 25% currently. He advised that private label generally achieved higher margins and sales were not confined to value driven shoppers, as well as highlighting the dangers to manufacturers of having products that are simple to be replicated as a housebrands.

Paul described the implications of the rise of housebrands to both retailers and suppliers, including the deletion of brands outside the top 2 in a category, the opportunities for collaboration where the supplier may be a potential producer of housebrands and the various strategies available to suppliers to reinvent their businesses in ways that offset potential negative impacts to them from the expansion of private label.

Andy Simmons (Partner) The Gap Partnership

Negotiation: New Tools, New School

Andy spoke of how many companies are still utilising 1970's style negotiation practices and the need to change this situation in order to prosper in the changing world of modern business, the key being to make the other party feel satisfied, but that they have had to work to achieve a good outcome. Andrew then introduced delegates to the "Power Laws" of negotiation – Scarcity, Reciprocation, Relativity and Authority.

Andy noted that you need to be flexible in style and approach to meet the specific situation, and that this can be difficult where human nature (to compete) can be a barrier to collaboration. Andrew then took delegates through the principles of "anchoring" in negotiation and the values of making outcomes conditional on actions. Finally Andrew highlighted the importance of focusing on delivering "total value' as the negotiation outcome rather than the traditional margin/volume position and encouraged delegates to "think how, not no!"

Rod Evenden, Woolworths
Matt Swindells, Coles

Shelf Ready Packaging In Action

Matt advised delegates that he believed that the Shelf Ready Packaging (SRP) of both Woolworths and Coles were now the same, before describing why the retailers consider SRP important and showed footage to demonstrate examples of the difference in filling time and effort between SRP and non-SRP. Matt advised that

SRP usage by stores was being promoted internally by the retailers and highlighted benefits to suppliers of moving to SRP.

Rod took delegates through each of the "Five Easies" - i.e. Easy: to identify, to open, to shelf, to shop and to dispose. Rod then explained that he and Matt had reviewed the ECRA Toolkit, and found the key difference between retailers to be shelf depth. The advice to suppliers was to ensure product could fit at least two SRP shippers deep or high for the lesser of the shelf depths (450 mm).

Friday 28 October 2011

Michael Alf (Vice President, Capgemini Australia)

Building Strategies for the New Decade – The Future Value Chain 2020

Michael posed the question “What do you want to achieve in 2020?”

Taking delegates through the necessity to respond in light of the rapid changes impacting consumer goods and retail companies.

Michael provided delegates with a framework to help the industry and individual companies understand the trends that impact our business, envision how they will impact, and then formulate plans to benefit our business from those changes. The core areas of sustainability, optimizing a new shared supply chain, engaging with technology-enabled consumers and helping consumers improve their health and wellbeing were all dialogued.

Michael challenged delegates to work collaboratively and engage in these big industry issues. For more information on The Future Value Chain visit. http://www.futurevaluechain.com/

2012

The 2012 Annual Retailers and Supplier Convention will be held in **Melbourne** on **Thursday 17 October and Friday 18 October.**

Details will be posted on the ECRA website!

We would like to again thank our Sponsors for their participation in the ECRA 2011 Annual Supplier and Retailer Convention.

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