Collaborative Innovation: How To Partner With Retailers

George Young, Founding Partner, Kalypso

At first glance, today's retailers and food and beverage (F&B) manufacturers appear to be in a fierce battle of the brands. Retailers facing mounting pressures to differentiate continue to successfully expand and launch private brands in the marketplace. Meanwhile, F&B manufacturers are trying to protect their brand value and win back market share. Despite differing business imperatives, enlightened manufacturers and retailers realize they have common goals—higher sales, increased profitability, and stronger business growth—that they can achieve together through collaborative innovation.

In fact, a recent Kalypso [1] survey of executives from 30 global F&B and consumer goods manufacturers and retailers revealed that those engaging in a true collaborative innovation approach are jointly increasing their sales by as much as 15 to 20 percent.

Unfortunately, many manufacturers and retailers are only achieving pockets of success. While these companies know what they need—and want—from collaborative innovation, they don't know exactly how to do it. This column looks at best practices from the Kalypso research and examines actionable steps F&B manufacturers can take to implement a successful collaborative innovation strategy.

What's in it for Manufacturers?

F&B manufacturers are facing unprecedented change in their relationships with retailers. The combination of retail consolidation and private brand growth has shifted the balance of power further towards the retailer. Manufacturers must now recognize that sometimes their biggest customer may also be their biggest competitor.

Still, F&B manufacturers have a great deal to gain from working closely with retailers:

- Obtaining insight into shopper needs and behavior from retail partners to meet the needs of both the end consumer and the shopper.
- Creating opportunities to differentiate in ways that drive equity and make the manufacturer indispensable to the retailer.
- Gaining access to more retail space and increasing success ratio of new items.
- Becoming a better partner for the retailer to ensure that the manufacturer's products will play a key role in the retailer's differentiation and shopper strategies.

The Retailers' View

Retailers seek to differentiate manufacturers' offerings to meet their shopper strategy and allow them to better perform in a competitive market. From the retailer's perspective, collaborating with manufacturers is a way to provide an improved shopping experience for their customers by:

- Gaining insight into consumer needs and behavior from manufacturers.
- Offering complete convenience solutions to shoppers by bundling offerings such as meals.
- Creating a better shopping experience within stores to increase shopping cart size and closure rates.

It's a Two-Way Street

Regardless of the drivers, collaborative innovation benefits both parties. By better understanding customers' needs and desires, F&B manufacturers and retailers can develop more compelling, innovative offerings for consumers to jointly grow the category—leading to blockbuster sales and profits. Working together also makes it possible to develop better promotion vehicles, enhance in-store support, and develop unique, value-added offerings for both parties. Moreover, F&B manufacturers can collaborate to shorten to time to market, develop more efficient use of resources, and streamline processes, resulting in less waste in product development and the supply chain.

Four Best Practices for Implementing Collaborative Innovation

1. Get Your Own House in Order

Before collaborating with retailers, F&B manufacturers must ensure that internally they are structured to collaborate. Companies first need to address management, organizational and business process challenges. Next comes optimizing the organization's innovation and growth strategy, resource planning, product

development process, and portfolio management. Only then are F&B companies ready to begin the collaborative innovation process with retailers.

For example, one Kalypso client first focused on improving key fundamentals internally, including its own innovation strategy, phase gate process, and organizational effectiveness. Once those were in order, this company was able to begin working with select suppliers on “piloting” four collaboration initiatives in sequence, starting with supply chain, and then proceeding to program, design, and consumer insights. This phased approach allowed the company to build a stronger foundation for successful collaboration with its external partners.

2. Develop a Strategy for Collaborative Innovation

It’s important to avoid blindly applying collaborative innovation to all partners or categories. Instead, F&B companies need to assess their brand strength and where they compete on pricing in order to set their partnering strategy for collaboration. Manufacturers need to go beyond simply considering the largest and most prominent retailers. One successful model is to adopt a tiered approach that prioritizes resources on the best partner candidates and biggest innovation opportunities, with go-to-market plans for all retailers.

3. Conduct Joint Business Planning

Of the companies interviewed by Kalypso, 81 percent stated that they utilized some form of joint business planning to align the goals of the manufacturer and retailer around categories or brands that they can jointly grow. One manufacturer’s approach to find “strategic intersections” between its priorities and those of the retailer resulted in a 30 percent sales increase and the development of 17 new items. Additionally, because manufacturers and retailers are incented differently, aligning their respective rewards and recognition systems is critical to changing behavior and supporting joint efforts.

4. Build Trusted Relationships

The ultimate goal of collaborative innovation is to create new growth opportunities, and trust is the foundation for this level of partnership. It is important for manufacturers to develop an approach for sharing information with their retail partners that protects intellectual property. At the same time, F&B companies should identify opportunities to jointly promote their brands along with retailers’ complementary private brand products—for instance a snack basket with an F&B company’s gourmet crackers, two types of store-brand cheese, apples and grapes. These types of combined offers can attract consumers and drive revenues for stores and manufacturers, alike.

In spite of today’s competitive environment in the F&B and retailer world, the potential value for F&B manufacturers to partner with retailers is tremendous. By implementing a systemic collaborative innovation strategy, manufacturers have the opportunity to form a common vision with their retail partners, which in the end will drive the stronger relationships and mutual success in growing profits.

To download the complete Kalypso report on collaborative innovation, visit *http://kalypso.com/landing/best-practices-in-collaborative-innovation* [2].

Last month: The Private Brand Revolution [3]

Next month: Why the product data record is central to ingredient traceability

George Young is a founding partner of management consulting firm Kalypso (www.kalypso.com [1]*), which specializes in innovation, and he leads Kalypso's Consumer Packaged Goods practice. He has more than 20 years of industry experience in executive management consulting roles. He holds four US patents and was named the 1994 Northeast Ohio Inventor of the Year.*

Source URL (retrieved on *09/01/2014 - 9:21am*):
http://www.impomag.com/articles/2010/03/collaborative-innovation-how-partner-retailers

Links:
[1] http://www.kalypso.com/
[2] http://kalypso.com/landing/best-practices-in-collaborative-innovation
[3] http://www.impomag.com/scripts/ShowPR~RID~13355.asp