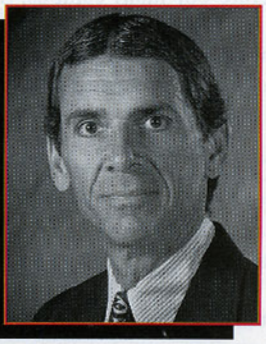
Suppliers Playing Catch-Up

By
Edward McLaughlin

It seems to me many food suppliers need a reality check. For years, suppliers simply grew accustomed to dictating terms to retailers. After all, it was they, the suppliers, who were better educated, benefited from fat promotional budgets, had access to the latest syndicated data evaluating retailers' performance and generally were more technologically sophisticated than their customers. For the most part, this is indisputable history.

Today's problem is that too many suppliers are still living in yesteryear. They haven't yet come to grips with the new realities of the food business. What's more, the issue is not simply the balance of power shifting to retailers. Indeed, this may not even be true (See my column in the next *DELI BUSINESS* for the real evidence in the balance-of-power question.) The issue is that retailers' businesses in the last 20 years have evolved more rapidly than that of most of their vendors.

The transition began in the early 1970's. It was then that a few retail leaders began to install Universal Product Code (UPC) scanners in their stores. Until that time, most technological innovation in the grocery system had been initiated by manufacturers. The adoption of these electronic checkout devices was rapid, motivated mostly by the huge productivity gains that scanners produced in speed and accuracy of checkout. By the late 1980s, however, retailers began to reap more profound advantages: improved consumer understanding from in-depth, scanner-generated information. Now for the first time, retailers knew — without asking for vendors' help — shopper product preferences, their purchase cycles, category performance and, when tied to demographics from frequent shopper cards, much more.



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Armed with new information, today's enlightened retailer has changed the nature of the manufacturer-retail relationship. This is not your father's sales call: the agenda of that traditionally key meeting will never again be the manufacturer explaining to the retailer, using both manufacturer and syndicated data, how the retailer performed in the past period. Now, retailers, using their own data, explain to the vendors how their products and categories performed and what changes need to be made.

Such a change in orientation is not only true in sales and merchandising. This spring, Cornell's Food Industry Management Program had the occasion to study the current merchandising and logistics requirements of retailers in three major channels of trade, food, drug and mass. We were particularly interested in how retailers expected those requirements to change by the year 2000, and what implications these new requirements had for suppliers. We have presented the results of the research to numerous supplier groups. Each time, the reaction has been the same: shock.

Suppliers have some catching up to do in order to match the technological advances of retailers.

Let me provide just a few highlights from our report that may help explain suppliers' reactions:

- Retailers report that nearly 90 percent of all their orders will be transacted via EDI by the year 2000. Leaders are there already. Vendors who are not technologically ready will be discontinued.
- Cycle time — from initial order to delivery — for everyday orders is expected to decline from about 8.3 days in 1997 to only 3.7 days by the year 2000. Today, only a few suppliers are prepared for this exigency.
- Retailers report a strong move to consignment selling: they say that by the year 2000, 75 percent of all invoices will be paid when the goods are sold (through the retailers' front end) not when the goods are received. Vendors will thus assume responsibility for all products — management, merchandising and shrink — until the final point of sale.
- Retail merchandisers report new aggressiveness regarding the additional services they expect from their suppliers by the year 2000: a doubling over current levels of part-number marking, a tripling of price-marked individual items, a five-fold increase (to 72 percent of volume) in customer specific labeling on displays and on outercases.
- By the year 2000, virtually all retail distributors will have developed formalized vendor performance guidelines. Already, some retailers keep sophisticated computer scorecards on each vendor, with performance tracked and attribute-weighted relative to the performance of all other vendors. One major retailer has its vendors ranked from number one to number 970.

There's more, but you get the idea. The retail business is shifting in ways that have caught many suppliers off guard. Retailers who want to survive into the 21st century have crafted bold new strategies in merchandising, product mix, logistics and more that suppliers had not fully anticipated.

Suppliers who want to survive into the 21st century need to catch up to their customers. They need to invest in new technology to match with retailer expectations. They need to add value to their businesses in the areas that best serve the retailer and final consumer.

Of course, the leading suppliers recognized the signals from retailers years ago. Some have already put model programs in place. But many have yet to see the new light. They still operate as they did a decade ago.

Dylan may have said, "The times, they are a changin...," but he didn't say how fast. DB