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Profits in the Pie of the Beholder

By: Daniel Corsten and Nirmalya Kumar

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Suppliers feel burned by "efficient consumer response" initiatives. But what if they just can't see the rewards?

Inspired by the apparel industry's supply chain innovations in the 1980% the food industry launched the "efficient consumer response" movement in 1992. ECR promised big payoffs for grocery retailers, suppliers, and consumers through sweeping supplier-reseller collaborations. It required that retailers, manufacturers, and third-party resellers abandon their mutual suspicion and energetically cooperate to streamline the processes involved in sorting, replenishing, promoting, and introducing goods in supermarkets. The expected reward? Better forecasts of product demand, more efficient use of store and warehouse space, increased sales and category share, decreased inventories and stockouts, reduced expenses for product promotions, fewer new-product failures, and lower administrative costs.

Early on, Kurt Salmon, a retail-consulting firm, demonstrated that ECR could reduce costs in the supermarket distribution chain by about 11%, which would translate into annual industry savings of $30 billion in the United States and $33 billion in Europe. Companies in the United States, South America, Europe, and Asia responded by launching national ECR initiatives. Retailers and suppliers joined hands with sudden enthusiasm and invested heavily in ECR training, infrastructure, and processes.

But by the late 1990s, it seemed the payoffs had yet to materialize. As far as suppliers were concerned, the lean supply chain simply fattened the wallets of powerful retailers like Carrefour and Metro, who all the while pressed suppliers to make more and more investments in ECR practices. For example, with category management, a common ECR initiative, retailers effectively outsource the cost of data crunching and market research to suppliers. Having taken on those costs, suppliers generally perceive the benefits of the category management program as flowing mainly to the retailer. Articles in the trade press captured the growing skepticism about ECR with headlines like: "ECR Breakthrough. A-a-a-any Day Now!" "ECR: More Promise Than Performance?" and, simply, "ECR Is Dead"

A Raw Deal?

Today, suppliers are increasingly apathetic about ECR collaborations. As the CEO of one of the largest packaged-goods companies in the world told us, "If there was a dollar to be made from ECR, I haven't seen it." But no one had actually tested empirically the suppliers' conviction that they're getting a raw deal. So we decided to more closely examine the relationship between ECR adoption and performance among suppliers of Sainsbury's Supermarkets, one of the world's top 20 retailers. Sainsbury's had asked all its suppliers to adopt ECR practices, and most did to varying degrees. Although the retailer had documented ECR's benefits to its own operations, it was unsure whether its suppliers were receiving corresponding benefits.

Between autumn of 2000 and spring of 2001, we surveyed a representative sample of 266 Sainsbury's suppliers about their ECR relationships with the grocer, the perceived benefits of their ECR activities, and how equitable they felt the arrangement was. The sample included small and large suppliers as well as private-label and branded suppliers. We also studied archival data on the suppliers' economic performance and compared them with the

companies' implementation of 33 different ECR practices. For each product category in a supplier's business with Sainsbury's, we compared sales, profit, and growth performance with the supplier's performance at other retailers and in other categories.

Though many suppliers would disagree, we found that they clearly benefit from ECR. In fact, the more ECR practices they adopted in their relationship with Sainsbury's, the higher their Sainsbury's-related economic performance. At the same time, the more the supplier collaborated with the retailer on ECR, the less fairly treated they felt. Why would this be? Retailers benefit substantially from ECR, but they've made fewer investments in it than suppliers have. If suppliers believe they are making most of the investments while retailers are receiving the lion's share of the benefits, they're bound to feel taken advantage of. This perceived inequity, accurate or not, harms relationships and can obscure real performance gains. And that can lead suppliers to doubt whether they've received any return from ECR at all.

A Matter of Trust

Large retailers do have a tremendous power advantage over suppliers. Given that power, suppliers often have little choice but to comply and accept the uneven, but still positive, returns from ECR. However, both suppliers and retailers would do well to reexamine how they approach their ECR collaboration. If disillusioned suppliers make only halfhearted attempts to implement ECR--which is increasingly the case--they hurt their own performance. It would be wise for suppliers to manage their perceptions of inequity and accept some imbalance as the cost of doing business, particularly given the gains to be had.

Meanwhile, retailers should be concerned about suppliers' disillusionment with ECR relationships and direct more energy into building trust with them. Perhaps retailers could take on more of the investment in ECR as a good-faith measure, find a more fair way to distribute profits, or invest in technologies and processes that could help them better assess their relationships with their suppliers. For example, Sainsbury's shares its performance data with its suppliers via an extranet and regularly reviews its relationships with suppliers using a balanced ECR scorecard.

If suppliers aren't fully committed to ECR, retailers, too, stand to lose.

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