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Retailers Gaining Power In Vendor Partnering

But Mistrust Must Be Overcome

By Winston Weber

Today, despite what we read or hear about collaborative relationships, there is still an enormous amount of mistrust in the relationship between retailers and vendors.

Generally speaking, many retailers don't trust most of their vendors. This lack of trust is due to varying business practices and inconsistencies between vendors, between vendor divisions, between vendor field sales managers and senior managers and between brokers and their vendor principals. Retailers get a variety of mixed signals. As a result, they don't always know if they are being given all of the facts, or if the programs being presented to them are as lucrative as those being presented to their competitors. The credibility gap is very broad.

The issue of mistrust, from a retailer's viewpoint, is heightened by a belief that vendors are making an inequitable share of the profits.

Mistrust is not a one-sided issue. Vendors say that retailer intentions are self serving, that they are more interested in building their store images, subsidizing their marketing strategies and lowering their operating costs than they are in establishing collaborative relationships with vendors. They feel they are being taken advantage of, with retailers trying to get into their pockets for every advertising, promotional and profit dollar they can get their hands on.

There is also an underlying concern, expressed by many vendors, that if trade promotion spending continues to increase at the expense of direct-to-consumer advertising, brand loyalty will continue to decline.

During the past several months, we have observed retailer and vendor behavior in over 100 meetings between retailer buyers and vendor account managers. We saw, firsthand, why there is so much mistrust at the buyer's desk. The following is just one example of what we saw.

Actual Situation

BUYER: "I have an excess inventory problem on Product X. Sell-through on the last promotion was not as good as expected. What can you do to help me?"

ACCOUNT MANAGER: "How much do you want?"

BUYER: "I don't know, what can do for me?"

ACCOUNT MANAGER: "How much do you want?"

BUYER: "I can force distribute product to all stores for endcap displays. The cost will be $6,000."

ACCOUNT MANAGER: "O.K. You have $6,000."

BUYER: "What can we do to accelerate sell-through off of the displays?"

ACCOUNT MANAGER: "How much do you want?"

To make a long story short, the account manager offered another $10,000 for a feature ad. And, what was most unbelievable, by the end of this 30 minute meeting, another $30,000 in promotional dollars were offered to the buyer.

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From the buyer's point of view, almost $50,000 in "over and above" funds would not have been offered unless asked for. The vendor account manager, on the other hand, had been "held up" by an important retailer.

This real-life incident is just one small example of how the behavior of both retailers and vendors has resulted in a very high level of mistrust in the industry… possibly higher than ever before.

IN THE '90S, COLLABORATION IS ESSENTIAL TO GROWTH

In the 1990s we can expect retailer power to continue to grow, with the shift toward retailers slowing. Whether retailers have more or less power than vendors depends on individual situations, which are influenced by clout factors such as company size, market share and category segmentation.

As we look at this decade, the 1990s, the issue is not going to be who has the power, or which way it's trending. The issue is going to be how to leverage resources to achieve a balance between trade and consumer marketing. This will require significant changes in behavior, changes by both retailers and vendors. This urgent need for interactive balance is predicated on two irrefutable truths: retailers have specific needs that can only be met by working more closely with vendors, and vendors must have retailer support to build brand shares and category consumption.

Let's begin by looking at the retailer's side of the equation. The need to heighten productivity and lower costs of operations is greater today than at any time in recent history. This is due to over-storing of the industry, intense competition within trade classes and growing competition between trade classes. It is also due to consumers, who are demanding more service, quality and value.

Add to this the extremely tight margins retailers have to work with, and it's an extremely tough environment in which to compete, let alone survive.

In such an environment, the key to success is going to be how well retailers leverage their resources to build sales, and build store image. To do so will require considerable financial resources and funding that can only be generated by lowering costs.

The emphasis on lowering costs is no longer going to be the driving motivation of a few everyday low price chains. It is now an industry-wide mandate for survival.

Retailers will drive costs down by using effective buying, inventory management and marketing, and they will allocate those savings to generate growth.

Based on our experiences with our retailer clients, the savings generated by focusing on lowering costs can be in the tens of millions of dollars.

We are seeing retailers using those vast resources to invest in areas that will lead to increased unit volume, sales revenue, profit and market share growth. Importantly, they are allocating their resources toward areas that will better meet the needs of customers and give them competitive advantage in the marketplace.

What does this emphasis on lowering costs mean to venders? It is a mixed situation. Some retailers are so focused on lowering costs that they fail to recognize the value of collaborative relationships on the cost of goods. They try to squeeze every last dime out of their vendors by demanding slotting allowances, failure fees, special warehousing allowances, policy exceptions, etc. They use whatever ever clout they have to achieve self-serving ends, and they are less inclined to engage in partnering activities that bring added value to the retailer/vendor relationship.

With these retailers, vendors are usually placed in “win/lose” situations.

On the positive side, an increasing number of retailers are recognizing that if they are to achieve their objectives, they must use their own resources as well as those of vendors. They know that they are unable to unilaterally maximize efficiencies in the procurement and distribution systems, nor can they achieve optimum category performance without close working relationships with vendors, relationships which are structured to accommodate their individual needs.

This gives vendors a unique opportunity. By taking advantage of the opportunity to work more closely with retailers, vendors an better positioned to accomplish their own objectives. This includes pursuing opportunities that will maximize manufacturing and distribution efficiencies, reduce deductions, achieve a higher return on trade promotions, and receive better support for marketing programs aimed at higher brand and category consumption.

What is Partnering?

Whether we call them collaborative relationships, partnerships, or strategic alliances, the most important issue is that retailers and vendors are beginning to work more closely together… for mutual benefit.

What is partnering? In its broadest sense, partnering is any situation where retailers and vendors step back from the adversarial relationship and move to one of cooperation, where there is agreement to leverage combined resources to achieve competitive advantage.

As part of the process, both retailers and vendors must accept the fact that mutual benefit is an essential consideration in any partnership. Without mutual benefit, or a win/win relationship, there is no partnership.

Each must also be willing to share knowledge and information, and be totally committed to the concept.

The ideal partnership will leverage combined resources to the fullest extent possible by concentrating on aligning logistical and ordering systems, reducing warehousing and transportation costs, improving service levels, and structuring promotional programs to achieve maximum efficiency and effectiveness. It also provides the framework for testing new ways to grow the respective businesses, outside of conventional thinking, which is commonly based on past experiences.

The much publicized Wal-Mart and Procter & Gamble relationship is a good example of combining resources to the fullest extent possible, for mutual benefit. However, many retailers and vendors, for a variety of reasons, do not have the resources to engage in partnerships as extensive as the Wal-Mart and Procter & Gamble relationship. In these instances, it’s merely a process of determining needs, utilizing what resources are available and modifying the partnering concept accordingly.

Establishing Partnerships

Establishing partnerships can only be done by diffusing mistrust and breaking down many of the traditional communication barriers between retailers and vendors. This is done by establishing an environment conducive to productive communications. In this context, productive communications is defined as the transference of information from one person or company to another with understanding, which leads to commitment and action.

With both our retailer and vendor clients, we stress the importance of understanding each other’s objectives, strategies, organization structures, management roles and responsibilities, lines of

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authority, decision criteria and processes, policies and performance standards, as well as any unique characteristics.

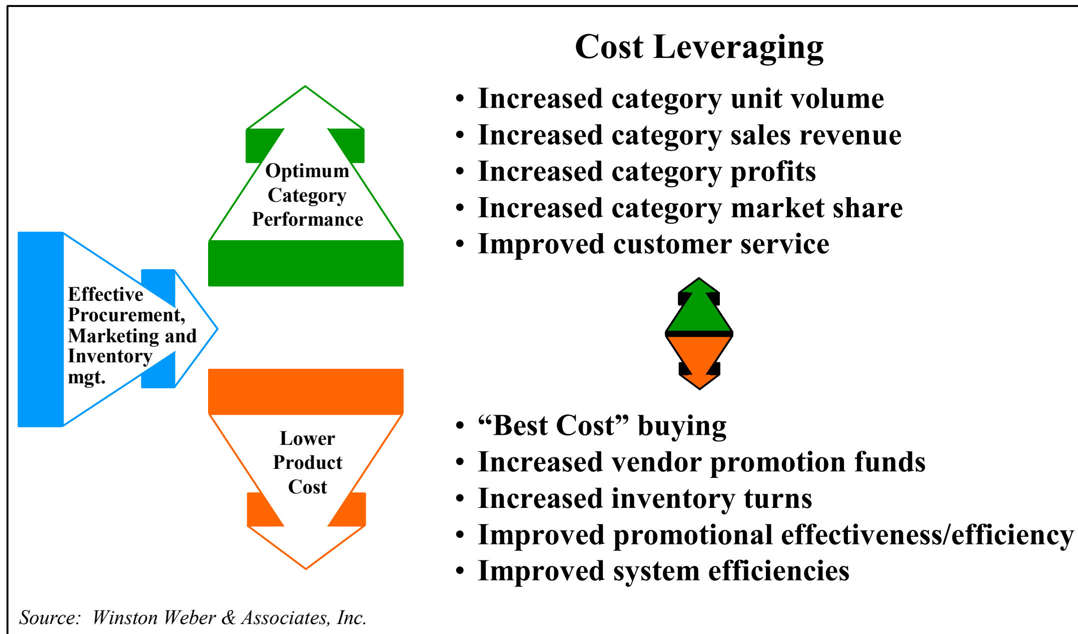
During the past five years, we have been involved in over 60 retailer and vendor “top-to-top” meetings. The senior executives of both the retailer and vendor participated. In these meetings, well over 50 percent of the real or perceived communications barriers were related to lack of knowledge and understanding. When both parties better understood each other, as well as the issues, we found that we were able to overcome strategic differences, incompatible management philosophies and policy conflicts. In fact, in over 90 percent of these situations, understanding led to nonconfrontational dialogue, which ultimately resulted in mutually beneficial agreements and decisions.

The Partnering Process

The partnering process begins with productive communications between the senior executives of both retailers and vendors. The process moves down through the respective organizations, with multifunctional involvement at the appropriate stages of planning and execution.

The senior executives of the retailer and vendor meet to gain a basic understanding of each other’s companies, goals, business strategies, marketing plans and operating philosophies. The meeting is also the forum for identifying and discussing barriers to productive communications. Some conflicts may be resolved at this time; others may not be resolved until later.

The meeting can take place at either the vendor’s or retailer’s corporate headquarters. (Vendor headquarters is preferred so retailers have access to more vendor executives.) The meeting should be results-oriented, with adequate time allocated to share knowledge and discuss key issues. Key issues should be identified and exchanged before the meeting so that each party can thoroughly plan for discussion, and guard against counter-productive surprises.



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Establish Common Goals

During the initial “top-to-top” meeting, senior executives should agree to establish a collaborative relationship between the retailer and vendor, confirm the areas of mutual interest and benefit, and

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establish common goals. These goals will provide the foundation for the partnering relationship, and should focus on increasing consumption, sales, profits and market shares, and lowering costs through the system.

Establishing "Game Plan"

At the conclusion of the initial "top-to-top" meeting, the following steps should be agreed on: a timetable, participants, roles and responsibilities, and urgency to both the respective retailer and vendor organizations; the follow-up planning meeting should be held within 30 days of the initial "top-to-top" meeting.

The follow-up planning meeting must include retailer and vendor decision makers. The vendor will come to the meeting prepared to review category performance, specific category and brand objectives, strategies, consumer and trade promotional plans, new products, etc. This should also include historical and planned consumer and trade promotion spending levels.

The retailer will share an as assessment of category performance, and review the 12 month marketing plan and specific promotional plans.

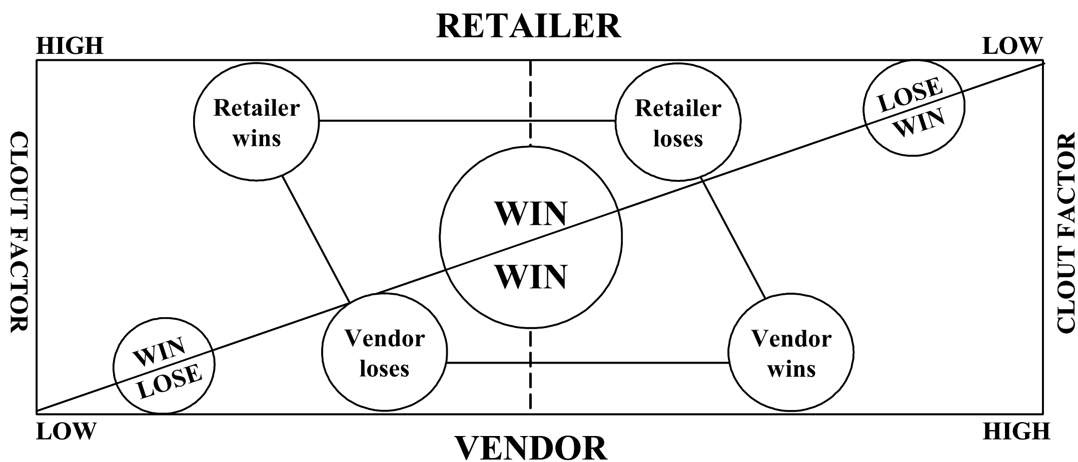
The retailer and vendor will then negotiate a business plan that is within the strategic parameters of the vendor's marketing strategy and spending levels, and which accommodates the retailer's marketing strategy.

The business plan must be mutually beneficial. In separate sessions, retailer and vendor executives follow a similar planning process, each developing those plans designed to align logistical and ordering systems, reduce warehousing and transportation costs and improve service levels.

Successful execution of the plan is dependent upon how well the partnering commitment has been communicated down through each organization, understanding of what's required to make the plan work, and follow-up.

There should be a quarterly review of progress versus plan and analysis of results to date. Corrective actions should be taken, when necessary.

Business planning is a continuous process, which should be monitored closely by both retailer and vendor executive management.



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More Understanding

The more resourceful retailers are taking a variety of actions to lower costs so that they have the wherewithal to better meet the needs of their customers and increase competitive advantage. It is important for vendors to understand these actions so that they can respond to the individual needs of retailers, and establish mutually beneficial partnerships. Actions being taken include the following:

An increasing number of retailers are changing to everyday low price or modified everyday low price strategies as a means of effectively competing against other EDLP retailers. It appears that fewer retailers will be able to employ pure high-low marketing strategies and still effectively compete in the marketplace, when confronted with EDLP competitors.

- EDLP and modified EDLP strategies will significantly reduce the peaks and valleys of promotional buying. This will reduce warehousing costs, and strip a considerable amount of administrative waste out of the procurement and distribution system.

- We expect most retailers to employ modified EDLP strategies, which will allow for temporary price reductions, displays and enough feature ads to add excitement and freshness to an otherwise mundane strategy.

Since short-term promotional strategies of many vendors run counter to EDLP and modified EDLP strategies, vendors planning to enter true partnering relationships will have to modify their promotional strategies to accommodate these retailers.

Procurement, Distribution

Retailers will be relying on advanced technology to share purchase information, transmit inventory information, transmit POS information and invoice electronically. Electronic data interchange (EDI) and uniform communication standards (UCS) will be in broadscale use.

While it would be premature to draw definitive conclusions, Continuous Replenishment Programs (CRP), which are being tested with several retailers and vendors, offer considerable cost savings potential. In fact, the financial impact appears to be so favorable that it is very difficult for either the retailer or vendor to withdraw from the relationship once it is established.

Based on historical retailer inventory levels and sell-through, which are automatically transmitted to the vendor, the vendor's computer determines order quantities and transmits orders back to the retailer. The vendor has a block of retailer purchase order numbers which it uses. Orders are shipped at a fixed time each week. In one test, the vendor is linked to the retailer's individual store scanners. It is an information driven system designed to ensure that product arrives from the vendor to the distribution point of a chain the same time it is designed for order consolidation and reshipment to stores.

These programs are only attractive when profitable to both the retailer and vendor.

In CRP tests, product turns have increased two to three times, while service levels also improved. This has resulted in significant inventory reductions for the participating retailers and vendors. Our preliminary analysis reveals that linkage between CRP and the structure of trade promotion programs can impact inventory turns and therefore the overall results of CRP.

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HOW VENDORS ARE RESPONDING TO KNOCKING DOWN TRADITIONAL BARRIERS

Recognizing that retailer and vendor partnerships will be a critical element to success in the 1990s, most vendors are making changes in how they conduct their businesses. Actions being taken include the following:

Redefining Relationships

Vendors are redefining the sales and marketing relationship so that there is functional interdependence. In the 1990s, marketing managers must have a complete understanding of trade perceptions of advertising, promotional programs and new products. On the other hand, sales must play a more important role in providing local market information, and more actively participate in the marketing planning process. Sales will also be responsible for coordinating multifunctional activities related to retailer partnering.

To accomplish this, vendors are taking whatever steps are necessary to break down the traditional barriers between the sales and marketing functions.

Restructuring Functions

As part of this redefinition of roles and responsibilities, the sales promotion function is being replaced by a trade marketing function, which has total responsibility for planning and controlling trade promotion expenditures. Trade marketing reports to sales. Trade marketing managers, who are located at both corporate headquarters and in the field, are responsible for account specific promotion analysis and planning. They are the catalytic force for moving field sales manager and retailer recommendations through the system. This function heightens response to retailer needs, and places the vendor in a more proactive position.

Restructuring marketing from the traditional brand management structure to category management is also taking place. Category management removes the parochialism of brand management and provides for a more effective allocation of resources to both consumer and trade spending.

Many vendors are evaluating the roles of their sales organizations, and restructuring by allocating more resources to account management, trade marketing and shelf space management technology.

The need to more effectively penetrate the key decision points of retailers, partnering relationships, longer term planning, account specific marketing and promotional fund negotiation has led many vendors to conclude that more senior, more skilled managers should be managing the top accounts. This is leading to increases in the number of national and regional account managers, and considerable investment in whatever support is necessary for accounts managers to manage their businesses. At the same time, more accounts are being added to vendor national accounts teams, or are being given comparable coverage.

Vendors are also overlaying their local account managers and brokers with more direct involvement by senior sales managers in the management of their retailer customers. These managers are being given considerable latitude to make decisions, particularly in the areas of trade promotion and customer development.

The roles of brokers, local sales managers and retail sales organizations are also being evaluated in the restructuring process.

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Multifunctional Teams

Vendors are organizing multifunctional teams to coordinate partnering efforts, a concept that is proving to be very successful. These teams include representatives from sales, marketing, technology, finance, and logistics. The vendor teams are aligned with retailer procurement, marketing, retail operations, management information systems, warehousing and traffic functions. Implementation of this concept provides for quick response to retailer problems, and sets the stage for putting efficiencies in both retailer and vendor systems.

Vendors, regardless of size, should set up multifunctional teams with those large national and regional retailers who represent the lion's share of the business. The teams should be organized based on the specific needs of each retailer/vendor relationship. Since small and medium sized vendors have limited resources, their multifunctional team approach must be more targeted than larger vendors.

It's important for vendors not to extend beyond their capabilities.

Space Management

Vendors are heavily investing in space management technology, which is bringing a new level of sophistication in communications between retailers and vendors. Space management is cost management, a language that vendors must learn if they are to achieve their desired product mix and shelving objectives.

Flexible Promotion Funds

During the past six months, as a result of the many vendor presentations to category managers which we have participated in, we have gained considerable insight into how flexible vendors have become relative to the management of their promotional programs.

An increasing number of vendors are moving away from performance contracts and are giving their sales managers much more latitude to restructure promotional programs. Many reallocate funds between products. Vendors are also responding to retailer requests for contract or dead net pricing, customized DSD delivery programs, and volume incentive programs. Others are testing off invoice advanced promotional payment methods, scanning movement programs and electronic marketing programs. Some vendors are even offering specialized packaging to retailers.

The message is quite clear… if a vendor is not flexible, and is unable to accommodate the needs of retailers, the vendor will be out of step with the industry.

Consolidating Functions

Large multidivision vendors are consolidating their customer service and distribution functions. This will add speed and efficiency, and it will drive considerable costs out of their systems.

They will also be able to improve their services to retailers. Importantly, consolidation will enable these vendors to better coordinate cost savings activities with their retailer partners.

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Critical Success Factors

There are several important Critical Success Factors that must be in place in order to establish productive communications, and successful partnering relationships. The Critical Success Factors, for both retailers and vendors, include the following:

- There must be a top management commitment and reinforcement down through all levels of the organization.
- There must be a clearly defined partnership strategy with specific plans and measurable objectives.
- There must also be delegation of more decision authority and accountability as far down into the organization as possible.
- There must be consistent “top-to-top” decision maker to decision maker dialogue between the senior managements from both sides.
- There must be sharing of support resources, functional expertise, category data, market research information, etc.
- Roles and responsibilities at each level must be clearly defined, and the appropriate training implemented which will assure the successful execution of any agreements reached in the partnership.
- There must be a process for monitoring progress versus plan, updating programs, and making adjustments if programs or agreements veer off course.
- There must be a willingness to admit and correct mistakes, when they are made.
- Commitments must be fulfilled.
- There must be mutual trust.

In addition to the aforementioned Critical Success Factors, which apply to both retailers and vendors, vendors must have the capability and willingness to offer programs to accommodate individual account situations. Retailers must also offer a variety of merchandising opportunities to choose from, and be willing to explore alternative concepts.

If one or more of these Critical Success Factors is not firmly in place, the likelihood of a lasting partnership is questionable.

Once the partnering process begins at the senior management levels, we are finding that that there are some important hurdles to overcome. We have observed a number of instances where vendor account managers have been left out of the planning loop, they have not been delegated enough decision making authority, or they have not been properly trained to adequately function within the spirit and rules of the partnering relationship. The focus of local account managers on achieving their monthly or quarterly sales goals, at any cost, can also be disruptive to the partnering process.

We also find that, in many instances, buyers tend to backslide into their past short-term focused negotiating habits when dealing with their vendor partners. This usually occurs as a result of internal cost management and performance pressures, the lack of consistent reinforcement, or because they were not trained on how to more effectively deal with vendors.

To guard against some of these start-up problems, the Critical Success Factors should continually be referred to. We also recommend to our clients that the relationship be treated like a patient in a hospital’s intensive care unit, and over managed for the first 12 to 18 months.

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Concerned About Some Vendors

At the present time, a few vendors are doing an excellent job working with a select number of retailers, and building productive relationships. Some are still struggling with how to implement the partnering concept within the context of their corporate objectives and strategies. Others are taking a shot gun approach by trying to establish partnerships with all major retailers. Many have simply loosened their trade promotion purse strings without clearly defined strategies and "game plans", and a few are still clinging to the misdirected preferred supplier bandwagon.

Retailers must offer a variety of merchandising opportunities to choose from, and be willing to explore alternative concepts.

We are concerned that many vendors are entering into partnering without fully understanding the concept, and the many issues related to successful implementation of partnering. If we are correct, then many vendors are blindly entering into experiences and disillusionment could jeopardize the viability of retailer/vendor partnering.

We are also concerned about one line of thinking which supports the belief that retailers should only form partnerships or strategic alliances with one or two vendors per category, usually large vendors with considerable resources. While this may meet the requirements of some large vendors, and the near-term needs of some retailers, the longer term implications would not benefit retailers, vendors or the consumer.

If retailers were to engage in only one or two partnering relationships per category, and rely solely on these vendor partners for category expertise, the competitive balance in product categories would be seriously disrupted. It would become increasingly difficult for small and medium sized vendors to compete, with many being squeezed off retailers' shelves. We believe the competitive vacuum would eventually be filled by retailer "branded" products.

In our opinion, there are few compelling reasons why retailers can't have partnering relationships with any number of vendors in a category, depending on category size and segmentation. This competitive balance in a product category puts the retailer in the best position to optimize cost lowering opportunities, it stimulates creativity and innovation, and it assures category spending is sufficient to grow category sales and profits. It also enables the retailer to interpret data from a number of sources, which enhances the quality of the retailer's marketing planning process.

Abuse of Clout

Retailers and vendors will attempt to use clout to reinforce their respective positions in the partnering process. When used in balance, clout can be an effective negotiating tool that can lead to a win/win result. Clout can be used to sell merchandising concepts, ideas or products, and it can enhance the communication process between the retailer and vendor. On the other hand, clout can be abused by demanding or threatening actions.

When clout is abused, and used by retailers and vendors as the primary means to produce favorable results, this misuse of clout becomes a major barrier to productive communications. One of two end results will occur.

If the vendor does not have much clout, and the retailer does have clout, the vendor will usually submit to the retailer's demands for fear of loss. A win/lose situation prevails. Consistent losses by the vendor will lead to dislike, disrespect and a "we don't like to do business with them" attitude. In this situation, the retailer will accomplish its short-term cost lowering objectives; longer term, the vendor will probably turn its attention to other retailers who want to establish collaborative relationships.

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If the vendor does have clout, and the retailer has equal or less clout, the vendor will resist the retailer's demands and engage in confrontation. No one wins; everyone loses. If the confrontational environment continues for any length of time, the vendor will turn its attention to other retailers where successful partnerships exist.

When entering the first step of the partnering process, which is establishing productive communications, we recommend to our retailer and vendor clients that they should clearly define and understand each other's clout factors. By clout factors, we mean those factors that can influence negotiating leverage. Retailer clout factors include retailer size, growth, market size and location, geographic penetration, contribution to vendor sales, size and volume of stores, and merchandizing capability. Vendor clout factors include vendor size, growth, category size and segmentation, brand ranking, category and brand development, push versus demand driven categories and products, and geographic and trade channel penetration.

If clout is well balanced, the probability for entering into a successful partnership is quite high, as long as neither party abuses their clout. On the other hand, if there is a significant imbalance of clout, either toward the retailer or toward the vendor, there is less likelihood that a successful partnering relationship can be established, and there is a higher probability that clout will be abused in any type of relationship between the two parties.

By understanding clout factors, retailers and vendors are better prepared to determine where they have partnering opportunities, and how to plan the application of their clout in ways which will lead to effective, balanced negotiations, and ultimately to successful partnerships.

Category Management

The emergence of category management on the retailer side of the industry will definitely enhance partnering, and it is essential if retailers are to achieve their objectives. Category management more closely aligns the procurement and merchandising functions with vendor category and trade marketing organizational structures, a linkage which puts a much sharper focus on category profitability and consumption.

Category management is an organizational concept which integrates buying and merchandising decision responsibility into category groupings of products. It is a concept that is often described as an all-encompassing process which leads to profitable category growth, consistent with brand and customer strategies. In actuality, it is one of many components of a total system which must be in place to fully leverage resources in order to optimize category performance.

There are several advantages to category management, from a retailer's point of view. They include:

- The procurement function is better positioned as a critical point of leverage for lowering cost.
- Category specialization improves the quality of planning and decision making.
- It provides a framework for effective utilization of technology and information investments.
- It encourages an essential balance between trade and consumer marketing.

As mentioned earlier in this article, the category manager has total responsibility and decision making authority within the framework of a retailer's annual marketing plan, for all aspects of a product category.

While we applaud the category management concept, we are also concerned about the way it is being implemented. Some retailers have assigned the category manager title to procurement positions without completely changing responsibilities, decision making authority, management processes, compensation structures and evaluation criteria. Others are implementing category management without all of the critical components in place. In these instances the concept will fail… no matter how good it is.

One of the best examples of successful implementation of category management is H-E-B stores in Texas. Their application of advanced technology, their investment and commitment to putting all of the critical components of category management in place, and their commitment to the successful implementation of category management, sets a standard that will hopefully be followed by all retailers.

Based on our experiences with our retailer clients, we are finding that to properly implement category management, retailers must go through a considerable amount of change. Procurement systems must be upgraded so that they are technologically advanced. Disciplined business planning processes must be implemented and there must be total access to the necessary internal and external data to conduct category analysis and develop plans. Building the right amount of decision authority into the category manager position can have significant implications on store operations and other functions.

It is also important to note that the impact on the buyer, who is instantaneously transformed to a category manager, can be considerable. The category manager must learn new skills, which requires investment in training. This upgrading process takes time.

It is also necessary to establish category manager performance measurement systems that not only include service levels, inventory levels, and inventory turns, but also evaluate category managers on product cost trends, market share, category sales, and category profits. By linking an incentivized compensation plan to these performance measures, category managers focus on buying the right product mix required to maximize cost lowering opportunities, and on increasing category consumption.

The magnitude of change that a retailer must experience is much greater than many people realize. If implemented properly, it can have an immediate effect on costs and sales, but it takes about two years before a category manager organizational structure can really be operating at the planned level of performance.

Retailers Expecting More

Drug chains and mass merchandisers have used six to twelve month planning cycles for years. Food chains are now moving in this direction.

In the future, most retailers will expect marketing programs, new product plans and all available promotional allowances to be presented by vendors on an annual basis. This will include specific sales goals, and consumer and trade spending levels.

Annual business planning gives both retailers and vendors an opportunity to jointly build business plans, including negotiating and planning how promotional funds can be used to accommodate individual marketing strategies. It also reduces periodic negotiation for special "over and above" allowances.

The most important advantage of annual business planning is that it moves retailers and vendors from a highly segmented short-term planning process to a longer term focus. This allows for more efficient and effective utilization of available promotional funds for both retailers and vendors.

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Everyday Low Pricing Will Become More Prevalent

By Winston Weber

This is the conclusion of Win Weber's two-part series on partnerships between vendors and retailers.

Everyday low purchase pricing (EDLPP), in the forms of contract pricing, dead net pricing, etc., is becoming more popular and attractive to everyday low price retailers. It can also work perfectly well for high-low retailers.

EDLPP smoothes the peaks and valleys out of promotional buying by avoiding forward buy build-up. It discourages diversion, reduces buyer and seller time because they spend less time negotiating and administering promotional activity and reduces deductions. More importantly, it allows for consistent pass throughs of allowances to consumers.

Based on the benefits of EDLPP to both retailers and vendors, we expect the concept to expand rapidly. In fact, our exposure to 1992 planning reveals a majority of major HBA vendors are offering contract or dead-net pricing on select product lines and in some instances across all product lines, to those retailers who request it. By the end of the decade, we expect to see a significant decline and possibly total elimination of short-term allowances.

Vendors will structure contract or dead-net pricing in two forms: all available trade promotion funds rolled back to reflect a contract or dead-net cost with up-front performance agreement; or, a percentage of trade promotion funds rolled back to reflect a contract or dead-net cost overlaid with performance-related marketing funds. We normally recommend the latter approach to our clients.

EDLPP establishes an environment that is conducive to joint business planning, both near-term and longer range.

Volume incentive programs on individual product lines, and across all product lines, are gaining in popularity. Based on exceeding quarterly, semi-annual or annual sales goals, retailers expect to share the financial benefits when they generate incremental sales for their vendor partners. These volume incentives reward the retailer with a percentage allowance based on incremental sales, or a percentage allowance based on total sales, based on performance over and above the agreed to goals.

Volume incentive programs, in various forms, are now being offered by many major vendors. We expect to be widely used by the mid-1990's.

Retailers are encouraging the discontinuation of bill-back performance allowances, and instead are suggesting alternative payment methods, which will enable them to receive these allowances at the beginning of performance periods. This eliminates having to wait 30 or more days after performance for reimbursement of promotional funds earned. It also significantly reduces the number of deductions related to promotion payments and reduces buyer and seller administration.

We are aware of several instances where vendors and retailers are testing "before performance'' payment of performance allowances.

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Here's how it works: prior to the beginning of a quarter, the vendor and retailer have a joint planning session where they review total available promotional funds for the next quarter, and develop a plan on how to best allocate and spend the funds to achieve their objectives. After the quarterly marketing plan is agreed to, promotional payment is credited to the first order of the performance quarter.

As retailers build capability to use the overwhelming amount of movement and consumer data now available, they will move more toward store specific marketing. Planograms, display programs, pricing and product mix will better reflect individual store criteria. This will improve store inventory turns and better position store merchandising to fit consumer demographics.

Advanced technology systems will enable retailers to make most store specific merchandising decisions at corporate headquarters.

Electronic marketing offers numerous opportunities for retailers and vendors to more efficiently deliver product promotion, and to effectively utilize consumer response capabilities. Recognizing the full benefits of scanning, electronic couponing, etc., we can expect retailers to encourage vendors to shift consumer promotional expenditures away from less efficient vehicles to retailer controlled delivery devices.

For example, in-store electronic couponing can be a much more efficient way of reaching consumers than FSIs. Or, shifting consumer promotion funds to allowances paid on scanning movement, in conjunction with current trade promotion programs, will allow for deeper cut price incentives to consumers, lower product costs to retailers, and result in a higher return on promotional dollars invested for vendors. Several vendors are already testing promotional programs based on scanning movement.

Restructuring

As they recognize the importance of the procurement function as a critical point of leverage for lowering product costs, progressive retailers will upgrade to technologically advanced systems which streamline the ordering process, and improve buyer productivity, marketing planning and the execution of marketing plans.

In line with this thinking, they will restructure their procurement functions to category management, an organizational concept that is emerging on the retailer side of the business.

Several retailers have already replaced traditional buyer and buyer/merchandiser systems with category managers. They have redefined both procurement and merchandising roles so that category managers have total responsibility and decision making authority, within the framework of annual category marketing plans, for building collaborative relationships, product mix, advertising, in-store promotion, pricing, shelf management, methods of distribution, inventory and profitability. Category managers also conduct all category analysis, and are in fact, the category experts for retailers.

With advanced technology systems, restructured procurement functions and redefined roles and responsibilities, it will be necessary for retailers to invest more in training category managers. There will be more training emphasis placed on negotiating, selling, analysis and planning skills and how to engage in productive communications with vendors.

This upgrading of skills should gain momentum within the next two to three years.

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Win Weber is president of Winston Weber & Associates, Inc., Memphis, Tenn., a management consulting firm which provides sales, marketing and strategic planning consulting to consumer products manufacturers, and consults with both manufacturers and retailers on establishing retailer-supplier partnerships.

The firm also works with retailers in designing and implementing category management.

Win Weber has a reputation as a leading consultant in the field of retailer-supplier partnerships.

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