

# Food & Drink Customer Centricity

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# Food & Drink - Customer Centricity

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# CONTENTS

Executive Summary	1
The Importance of Customer Centricity	2
Issues Faced by Food & Drink Manufacturers and Retailers	4
Forecast Accuracy	4
Supplier Relationships - Replenishment	5
New Product Introductions	5
Global Diversity	6
Making Customer Centricity a reality	7
Thinking differently about customer behaviour	8
Drawing on smarter analytics	8
Putting a laser focus on the customer	9
Millennials: Embracing the New	9
Conclusion	10

## Executive Summary

In recent years, product variety in the food & drink industry has exploded and competition has become intense.

This white paper highlights the challenges the food and drink industry faces and the need to evolve to a changing customer and evolving marketing conditions. The discussion will highlight three key areas:

- Importance in becoming more demand-driven and customer centric
- Issues faced by food and drink retailers and manufacturers
- Making customer centricity a reality



## The Importance of Customer Centricity

In an increasingly demand-driven world with consumers more connected and better informed than ever before, it is vital for companies to keep up with the ever-changing environment or risk getting left behind. Consumers expect better products, the latest food and drink trends, transparent and competitive pricing, as well as the power to control their own transactions and engage with their provider. With advances in modelling, analytics and data technologies, companies are able to access more granular customer insight to fuel a more advanced and accurate demand forecast which truly reflects customer demand and leans toward a customer centric approach.

To be truly customer centric requires changes to both process and technology. This is a new mind-set for many organisations and will require the need to embrace advanced technology.

Many companies have a more traditional structure with supply-driven models operating in isolation of the customer-facing side of an organisation. Predominantly, forecasting has been the domain of the manufacturing division or the area of the business primarily focusing on the mechanisms of product movement, thus leaving input from other departments limited to sales history and promotional plans. Real customer insight, such as behavioural segmentation, product preferences, channel attributes, promotional and price sensitivity have not been part of the model.

Added to the complexity of today's retailer challenges, is the increase of online sales and the need to implement a truly omni-channel strategy. Online is often treated as an 'additional' sales channel with its supply chain simply added to the mix, however it is clear from the figures below that companies are not addressing the issue fully. In a recent survey to identify practical ideas and opportunities retailers needed to succeed, it was noted that:

- 71% of retailers do not have a formal omni-channel demand planning processes
- 82% of retailers offer different assortments across channels
- 65% have plans to upgrade their merchandise planning systems while 50% plan to upgrade their allocation planning solution

Whilst the majority of retailers are planning to upgrade their systems it is clear that there is much more work needed than simply upgrading planning systems. Instead, retailers and manufacturers need to consider ground-breaking changes in the way they structure their organisation.

Today, the balance of power has swung back toward customers who are able to amplify their experience and opinions both to their own social networks and to people within an organisation. The Internet and mobile technology have muddied the waters with many consumers interacting with two or more channels before making a purchase. This makes retailers structured around a single channel out dated and in need of new thinking. Fostering loyalty with the customer base has become the focus of attention with 67% of UK retail bosses citing omni-channel strategy as the top priority. Working towards a business model based on customer demand is not only more meaningful it is also more profitable.

An interesting change is happening in the market place, not only are consumers changing the face of retail, but start-up manufacturers are also redefining the food and drinks industry.

Jeremy Basset of the newly created Unilever Foundry comments that traditionally the industry was built on economies of scale through factories, media procurement, the method of distribution and relationship with retailers. In today's world, barriers to entry are being eradicated as consumers become much more educated. Today's food consumer looks toward smaller, artisanal producers that offer authenticity where they can understand the people behind the product and their motivations.

Big companies are starting to see the benefits of working with start-ups and are actively seeking them out to create a 'frenemy' relationship or collaboration incubators such as those at General Mills 301 Inc. where customer demands drive creativity and innovation. This is a concept unheard of until now. The proof is in the success of US introductions such as Pillsbury bread into schools bringing panini and ciabatta to a new audience.

Insights into customer behaviour, wants and desires at every level including store, segment, and SKU, are more important than ever. In an ever-moving economic recovery, dynamic demand planning and supply chain management needs to work in real time. In a climate of intense retail competition, and consumer demand, technology is the way forward.

Advanced planning software and associated technology better enable businesses to:

- Improve sales with enhanced customer service
- Reduce costs with improved supply planning
- Innovate and reap great return on investment

Becoming more demand focused is a complex transition from traditional retail models. The three main areas of complexity are: transitioning from product to demand forecasting, building cross chain functionality, and moving toward deeper item level analysis of customer insight.

Market-focused demand modelling allows for the realisation of customer centric forecasting. This evolution in forecasting approaches and models allows retailers across the board to respond to real-time demand with real-time business data. This requires enhanced communication right across businesses including pivotal supply chain management and market research. With enhanced communication, the final piece of the puzzle is customer insight. Here, contextual data is key: the more detailed contextual data employed, the greater the insight gains into the customer.

## **Issues Faced by Food & Drink Manufacturers and Retailers**

### **Forecast Accuracy**

In terms of forecast accuracy, the main challenge is supply chain complexity. The need for freshness, high service levels and price pressure from retailers all add to an already complicated system. It is important for the planning team to be able to address the gaps between forecasted and actual volumes so that all elements of the supply chain can fulfil demand. It is impossible to maintain high levels of accuracy from spreadsheets or simple non-integrated systems where human error can hit profitability hard; get the forecast wrong and the raw ingredients might need to be thrown away. By embracing new systems,

profitability through more accurate forecasting will be improved, customer service will be boosted and perfect orders delivered. Today's innovative solutions help eliminate redundant and obsolete inventory and decrease carrying costs as decision makers can see supply chain information in real-time. Synchronising customer demand with inventory goals enables the planning needs of the entire enterprise to be met with one comprehensive demand plan.

## **Supplier Relationships - Replenishment**

Better supplier/retailer relationships mean better collaboration, trust and co-operation. Retailers, who have significant supply chain power, are starting to acknowledge the importance of suppliers in gaining market share. With good relationships in place, retailer response times improve in the face of a dynamic marketplace.

One of the biggest areas of break down in a supplier relationship is replenishment. While forecasts and orders provide suppliers with the data required to create initial plans, their business relationships are at the mercy of unplanned replenishments. The ability to make alterations to replenishment plans in order to satisfy consumer demand is one of the most critical capabilities of manufacturer/retailer relationships.

This is where the disparity of objectives hits: the retailer wants to fulfil consumer demand at the lowest cost, while manufacturers want to maximise their production plan. Continuous replenishment strategies such as those offered by business models like: Vendor Management Inventory (VMI), Efficient Consumer Response (ECR), and Collaborative Planning, Forecasting and Replenishment (CPFR) are a way to circumnavigate replenishment discrepancies and improve inventory management at the same time. Such models also include the capacity to p stock out, minimum inventory, and replenishment alerts. Better inventory management of course, leads to increased profitability.

## **New Product Introductions**

Making sure the right product is in the right place at the right time and at the right price is the chief concern of the supply chain. In this globalised, Internet economy the sheer pace of new product introductions (NPIs) creates unprecedented pressures for supply chain organisations. In turn, this has a knock-on effect on sales, finance, operations and marketing.



Such a demand-driven retail model works by introducing product families that the market can absorb. This marks a change from the more conventional inside-out model in that the market drives demand for new products rather than the other way around. Quantity and profitability in the demand-model can reduce the number of NPIs that occur based on what the market requires.

However, forecasting for a new product launch can be difficult due to the scarcity of historical forecast and sales data. Through the use of advanced algorithms that factor in the closest possible similar data, for example similar attributes, companies are able to gain more accurate visibility into what will sell thus driving their supplier and manufacturing requirements.

In summary, planning software with advanced algorithms supplied with up-to-date market information can generate meaningful, insight and optimal new product plans. In turn, these plans improve inventory efficiency across all locations and channels and produce:

- Cost-effective inventory decisions
- Automated inventory management policies across all channels and locations
- The ability to make micro and macro changes across the supply chain
- Effective safety stock policies
- Streamlined , dynamic product portfolios

## **Global Diversity**

The future of food and drink retail and manufacturing lies in the global economy, and its emerging markets. Willy Kruh of KPMG states that, "If you want to be a consumer market player in the future, you simply cannot ignore emerging market consumers. You need to get in there early and put in the time."

For large global companies in the food and drinks industry, effective management of large numbers of SKU's throughout a complex network is critical. Often the product portfolio will include seasonal products with a short shelf life and high obsolescence, requiring numerous launches and promotions. To do this, the focus needs to be the improvement of working capital together with cost cutting.

The solution is to implement a standard, centralized process for strategic planning and the setting of safety stock targets across a multi-echelon supply chain. This can lead to large savings with improved global service levels up 2% as was seen at Kraft when they implemented Logility Voyager Solutions™ v

Creating a retail strategy that recognises the importance of global diversity requires:

- Focus on the demands on the supply chain and causes of fluctuations such as potential issues with suppliers or logistics
- Realisation of idealised stock locations and inventory buffers
- Uncertainty and market volatility incorporated into inventory plans
- Data driven optimisation algorithms that provide the basis of inventory management
- ‘What-if’ analysis of costs and impacts

## **Making Customer Centricity a reality**

Today's global market place is shifting beyond product recognition. Consumers want to know more about the provenance behind what they are buying: where it comes from, the credentials of the company behind it, etc. In order to compete, companies need to have a deep, multi-dimensional understanding of their customers and their motivations. To become truly demand and customer centric, organisations need to introduce advanced data analytics and smart technologies to track and anticipate consumer behaviour. In addition, a sharp focus on delivering as near to real-time products and experiences when, where and how the customer wants them, is crucial for maximum performance in the global market place.

Trying to keep pace with consumer demand is a challenge. What consumers say they want and what they actually want can be vastly different. Couple this with the fact that only a third of companies say they are meeting consumer driven demands means the issue is amplified – and becoming increasingly so. In a recent KPMG survey, 42% of the 400 leading retailer responders said that their customers wanted to shop online to find the lowest prices and to research best value, yet only 27% felt that they were successfully responding to this market shift. i What this shows is that consumer companies – particularly food and drink retailers – are lagging behind customer demands.

There are a few considerations that organisations need to consider in order to improve:

- Think differently about customer behaviour
- Draw on smarter analytics
- Put a laser focus on the customer
- Market shift as millennials move to centre stage

## Thinking differently about customer behaviour

Companies need to consider how to use data and analytics for deeper customer insights. Bill Nowacki cites three types of data that world-class consumer companies need to harness to explain how and why a customer acts throughout their shopping journey: **circumstantial**, **situational**, and **demonstrated behaviour** data (including non-spend characteristics). In other words, the key will be to gather as much data as possible from the internal sources retailers already own, as well as from external data sources. Demand data can often show what a consumer has already done, but the power really comes when companies couple that information with why the customer has behaved that way. For example, data from focus groups or regular surveys can be plugged back into the segmentation model and used to predict behaviour in other parts of that segment.

## Drawing on smarter analytics

According to KPMG: use of predictive analytics, customer path-to-purchase analytics and artificial intelligence are expected to significantly grow as organisations realise the importance of using analytical tools for fast growth. By adding customer path-to-purchase mapping, companies will understand emerging shifts in consumer dynamics – crucial in a dynamic market place.

Often behaviour changes at different rates and small increments can be seen. For example in recent years the adoption of buying local and organic produce saw a very slow rise, but that wasn't true for all segments. The wave of following for buying local is seeing a big shift; path-to-purchase analytics will help companies judge the changes and use this information to launch new products and promotions more effectively.

## Putting a laser focus on the customer

Customer loyalty, customer service and the customer experience are all top priorities for successful customer-centric retailers. Attached to this, supply chain management along with supply chain agility and flexibility are key priorities for the customer-centred approach. For example, in emerging markets, a laser focus on customer sensitivity is crucial to understanding customer desires that can vary from retailers in more established markets. For example, Jessie Qian, Head of Consumer Markets at KPMG in China illustrates, “As a consumer living in China, I would say that we have some of the most technologically advanced customers in the world.” Such a differing attitude exemplifies the differences between the well-understood Western market, and those of the emerging economies. Qian goes on to say: “In the developed world, there are more regulations and greater customer loyalty. In the West, people have grown up with brands. They are part of their lives. However, the consumer market in China has only really developed over the last 20 years. So consumers frequently change from brand to brand.” Thus, a laser focused, hyper-sensitive approach to the customer in contemporary times, is a top priority for retailers striving to grow.

## Millennials: Embracing the New

A further emerging market comes in the shape of the millennial. This booming demographic now accounts for almost a quarter of the world’s population and is fast emerging as the top consumer spender. Targeting promotions and marketing strategies to this group would seem to be prudent.

However, success with the millennial comes from understanding how to capitalise on distinct millennial consumer behaviour. For example, millennials spend more on health than their predecessors, and are also concerned with buying into socially aware brands. Millennials value the shopping experience at the same time as shopping on mobile devices on the go.

What makes the millennial market challenging, is the lower disposable income coupled with a rejection of traditional marketing and advertising strategies. Preferring to browse rather than actually buy, millennials are tough cookies when it comes to retail behaviour.

As Willy Kruh argues: “Of all the currents of change running through the consumer marketplace, Millennials are the greatest disruptor.”<sup>1</sup> Be they a challenge or an achievement, millennials are here to stay.

## **Conclusion**

Food and drink retailers and manufacturers must rethink their supply chain to stay ahead of a quickly changing landscape. From consumer pressures for variety, freshness and transparency to challenges of managing complex, global supplier relationships, the key to success is developing a demand-driven supply chain. To succeed, look to advanced solutions that can automate many of the day-to-day planning activities and allow your supply chain team to focus on higher level strategic actions that can drive the greatest impact to your bottom line.

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