

Retail: Time to end the game of 'beat you up'

Increasingly, retailers want suppliers with strong account management, robust strategy and a willingness to partner. And suppliers are stepping up to the plate.

Revealing a slide of ferocious Arctic wolves, Tim Clifford, Group Buying Director, Dixons Stores Group joked: "I would like you to meet our buying team." The quip met with uneasy laughter from suppliers at this year's Routes To Market Association retail conference - Building Powerful and Profitable Relationships with Retailers.

Scratch the surface and many suppliers still regard major retailers with feelings of angry, cynical impotence. They assume, in the words of Clifford, that retail buyers will "rip the value out of their brands and products." They also feel powerless to do anything about it.

But this Routes to Market Association conference showed just how much things have changed over the last few years and this shift is going on at many levels.

Firstly, the attitude of some major retailers has undergone a sea change. With large suppliers they are willing to move away from confrontational buy/sell relationships towards mutually beneficial win/win relationships.

Secondly, many suppliers are beginning to see a pay-back from new approaches which measure profitability, build deep account management and which are based on shared assets and well-thought-out long-term strategies. Others, however, have yet to embark down this path and it was interesting to note the skills gap that existed between the most sophisticated suppliers and those who have yet to develop coherent retail programmes.

Sea change from Dixons

It is remarkable that, at the conference, the

most enthusiastic exponent of the new approach to account management proved to be a retailer. Just listen to Clifford: "Suppliers will be amazed at the difference if they get account management right. It can make a vast difference to sales and profitability."

Underlying this change of attitude to Dixon's major suppliers is a growing realisation that win/win is possible, indeed essential.

Clifford is very clear indeed about what he wants and doesn't want from major suppliers. He expressed great frustration with the low quality of account management in some major suppliers: "It is surprising how often they do not know their own organisation." Above all, he wants a multi-layered relationship with big suppliers: "We want to be able to talk directly to your logistics and finance people."

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Are we disruptive? Occasionally."*

He also likes suppliers who have a strategy which they can clearly express. He argued that proactive suppliers who can make a business case are far more likely to win than those who can't. "Just because you are big with us in Britain, don't expect help from us in Italy, unless it resonates with the Italian market."

But, equally, he added: "As long as you know your product strengths, you can formulate a three year plan to build your brand in, say, the Nordics, based upon our strengths as a retailer. We would be receptive to that."

Perhaps the reverse side of the coin here is the ability or inability of a retailer to express its

own market position and business model. Out of this should come a specific set of demands which it requires from its suppliers. Dixons has clearly done its homework here. Clifford defined the company as a Pan-European electrical specialist.

Out of this comes a need from major suppliers for a single European price for products. Also, in order to compete with generalists, a burning desire for exclusive products.

Clifford suggested that deep win/win relationships can only exist where the strategies of the retailer and the supplier are in reasonable alignment from the start. "These relationships fail when they imply too great a level of change for us or the supplier. They work when we use our joint knowledge of the product set to improve sales and profits."

There is a lesson here for suppliers. There is little point attempting to build mutually beneficial win/win relationships if a particular retailer is still mired in confrontation. You can not befriend a genuine Arctic wolf!

There are still plenty of retailers who operate untamed wolf packs. Even Clifford was happy to acknowledge that sometimes Dixon buyers adopt a lupine approach:

"Are we tactical? Yes. Are we aggressive? Yes. Are we disruptive? Occasionally. But our buying team understands strategy and realises that they are only as good as their suppliers."

Suppliers have to be aware of their importance to retailers. Clifford made it clear that of Dixons 250 main suppliers, the retailer only wants a very close relationship with 15

and to do joint planning with a further 40. For the remaining 200 it is about raising efficiency and logistic standards.

Closer relationships start to pay

At the conference, suppliers also revealed that they were starting to see major benefits from working more closely with retailers. James Radford, vice president, global accounts at Hewlett-Packard and Peter Nolan, senior vice president, Electrolux can both point to relationships which have become far more profitable after being re-engineered.

Logistics and supply chain coordination remains an area where there is huge potential. Partly because this is an area where suppliers and retailers can lose huge amounts of money!

Failing to accurately estimate demand for a particular appliance left a major retailer and its supplier shipping crates in from the Far East on two 747s for several months. Sales were enormous, but neither party made any money.

At another level, the idea of measuring the profitability of different retail accounts is beginning to percolate into account management practice. Measuring retail account profitability is a relatively new concept for many large companies.

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Indeed, Philips, Electrolux and Hewlett-Packard have all only been measuring account profitability in a detailed way in the last three years.

Rik Esselink, director, business innovation, at Philips says: "It has changed the way we look at accounts. We were surprised at how often our assumptions proved to be wrong. For example, in the Netherlands, we assumed that a retailer with 30 branches and 30 weekly deliveries would be less profitable than one with a similar number of branches, but with deliveries to just two warehouses. In practice,

we found the demands made by the latter meant that it was much more expensive to run than the former."

The approach is beginning to move down to the account managers and the systems they use at the coal face, says James Radford at HP. "The impact on account managers can be electric, but there is a lot of resistance at first. We have started rewarding account managers on the profitability of the products they sell. Our East European team was very unhappy about this. They said that their products were, by definition, lower margin because they were lower price. They felt like victims. But they finally buckled down and eventually smashed the profitability target."

"We need to push responsibility for account management back up to senior management."

HP is now "blending profitability into the account management process. It takes time, but we are seeing success."

Radford now wants to measure present and future profitability: "We may be making good profits today with a retailer on our printers, but, if the retailer is taking steps in consumables which will jeopardise our future profitability, then we need to be aware of that now."

The next step is to actually share profitability data with the major retailers. Clifford is urging suppliers to do just this. Esselink at Philips was cautious, saying: "I am sure Dixons is serious with this offer. But I don't think we will be taking it up for a few years!"

Suppliers need a clear strategy

One of the main items that Clifford is demanding from suppliers is a clear strategy. He says the ability to formulate and explain a long-term strategy is an area which remains a weakness for many suppliers.

This, says Vic Foti, operations manager at HP, is vital, and something that until recently

many suppliers simply never thought through. "You have to know precisely what you as a supplier want to achieve. You have to know what markets you are aiming at and with what products.

You have to be able to take a story to the retailer. Fifteen years ago we were all just chucking half-baked cakes over the wall to the retailer, who would then put on the icing and the cherries. Those days have gone."

VIA director Michael White feels that the key to a successful strategy is the willingness to differentiate between different channels and, indeed, different accounts: "Every retailer will ask for an exclusive. Suppliers need to work out, starting at the end-consumer, which retail channels they want to work with and the specific actions they will take with different retailers. If your immediate response is to buckle to the demand for exclusives, you will find it almost impossible to come up with a meaningful strategy."

Beware the self-defeating mindset

Often, lurking behind these problems for suppliers is the self-defeating "buyers are wolves" mindset. Reporting on a workshop on account management at the conference, Jon Grimes, group sales and operations manager, Microsoft said: "Several workshop members said that they could not afford to put their best people into retail, because of its low profitability."

Grimes points out that this, of course, simply reinforces the perception that "retail account managers are just one step up from store salespeople and are all aspirants to selling enterprise products to large accounts."

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These status issues are also symptomatic of where decisions tend to be taken, says Peter Nolan. He claims that, all too often, the juniors at the coalface are not properly

supported, or are left carrying the buck by senior management back at the ranch: "I saw a case recently where we had a problem with a major retailer and the account was being run by this guy on 50,000 euros a year and a company car. Fundamentally, it should have been the responsibility of his boss – the guy on 250,000 euros a year. So I told the senior manager that he was being paid that kind of money to sort out problems. We need to push responsibility for account management back up to senior management."

A focus on quarterly sales performance can be hugely damaging. A manager from a large and sophisticated supplier said: "Yes we formulate business models and plans. But what happens when a competitor cuts its prices, you have a heat wave and nobody buys or the quarter end is just soft. That is life-threatening – 'I might lose my job' stuff. At that point I am afraid the business models and planning gets thrown out of the window."

Ultimately, suppliers need to start counting

the hidden cost of this sort of mindset. Nolan contrasted the care and professionalism with which investments were made in manufacturing and product development, with the approach adopted to large retailers.

"If you have a retail customer who sells \$2 billion worth of product a year for five years, you have a \$10 billion deal. How many companies treat that with the care they would bring to an equal investment in manufacturing or product development?" ■

Workshop reports

Delegates could choose from a range of workshops each addressing a burning issue. Here is a selection of the thinking that emerged.

Globalisation Retailers are increasingly asking for global or Pan-European account management and show a preference to work with global players who can offer product and brand consistency. The workshop participants were in general sceptical of such demands. One said: "No retailer is global today. The profit and loss is still handled at national level and that is where the real power is."

They were also somewhat sceptical of the ability of retailers to create global preferred suppliers: "It is the preferred brand of the consumer that counts and that still varies greatly at national level."

Suppliers are also aware of the risk of signing deals which give global retailers prices they can use to rapidly win marketshare in new national markets. "This can have a huge impact on existing retailers with whom we have a strong relationship," commented one participant.

If global deals are signed then it should be only after serious thought and the relationship should be calibrated with maybe 20-30 targets and reviewed on a regular basis.

Single European pricing Dixons Stores Group and other retailers are demanding that suppliers give them a single Europe price and this led to a lively discussion about what suppliers should do about this. Most felt that such requests were often negotiating ploys: "Retailers aggregate their total

European volume and demand further discounts."

Delegates felt that in practice most retailers still do not operate at a Pan-European level but buy at country level. This means that there are no efficiency savings to be had by moving up to a European level. On the contrary, several suppliers said that they had assembled expensive Pan-European account management teams which simply duplicated the efforts of their national account teams.

In general, suppliers feel that requests for Pan-European buying can often be resisted. One delegate told how a request for the same prices in the Nordics and Eastern Europe rapidly foundered. "We analysed the models that were selling in the two blocs and quickly found that consumers wanted different models. The retailer threatened to airfreight goods into East Europe from Stockholm if we did not concede. So we analysed the cost of doing this. We concluded that airfreight would cost the retailer too much to carry out the threat." This is a perfect example of how it pays suppliers to analyse and understand retailers business models and costs!

Account Management Whilst retailers were keen to be served by good account managers often staff shortages and the shape of the supplier organisation militated against this. In some companies retail account managers were seen as a

junior role. This meant that these roles were often occupied by less well skilled staff. In fact, delegates felt that retail called for particularly sophisticated account managers who were capable of seeing and putting the business case. One said: "We all have huge problems recruiting good retail account managers." This problem was further exacerbated by a lack of retail focused training programmes.

Often retailers wanted account managers who could make decisions. But, senior management from suppliers are often reluctant to become involved. For some delegates short-term goal setting was a problem: "We want account managers to think long-term but set quarterly sales targets!"

Delegates were unsure how much profitability information should be given to retail account managers. Some felt that they wanted retail account managers to focus on volume sales, leaving product managers to worry about profitability. One commented: "Can we trust account managers with profitability decisions?" Perhaps this reflects the relatively low status of retail account managers.

All agreed that goals, training and recruitment needed to be thought through carefully. The workshop underlined the need for companies to have an entire account management system which connects strategic decisions through to resource allocation and execution. ■