

Best Practices in Collaborative Innovation

How Manufacturers and Retailers Can
Profit from Collaborative Innovation

Kalypso White Paper
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Research Overview and Key Insights

Research Overview

Open innovation is the process of managing the interaction and collaboration of multiple partners to deliver new solutions within a business ecosystem. Today's industry leaders are competing to win with open innovation, working with many partners in the value chain—including universities, and even companies from other industries—by opening up to external partnerships, increasing reliance on collaborative idea generation, and becoming less protective of their intellectual property. As a result, successful open innovation partnerships are enabling the discovery of new and meaningful ways to satisfy the customer and consumer in a way that builds bottom line results for all value chain partners.

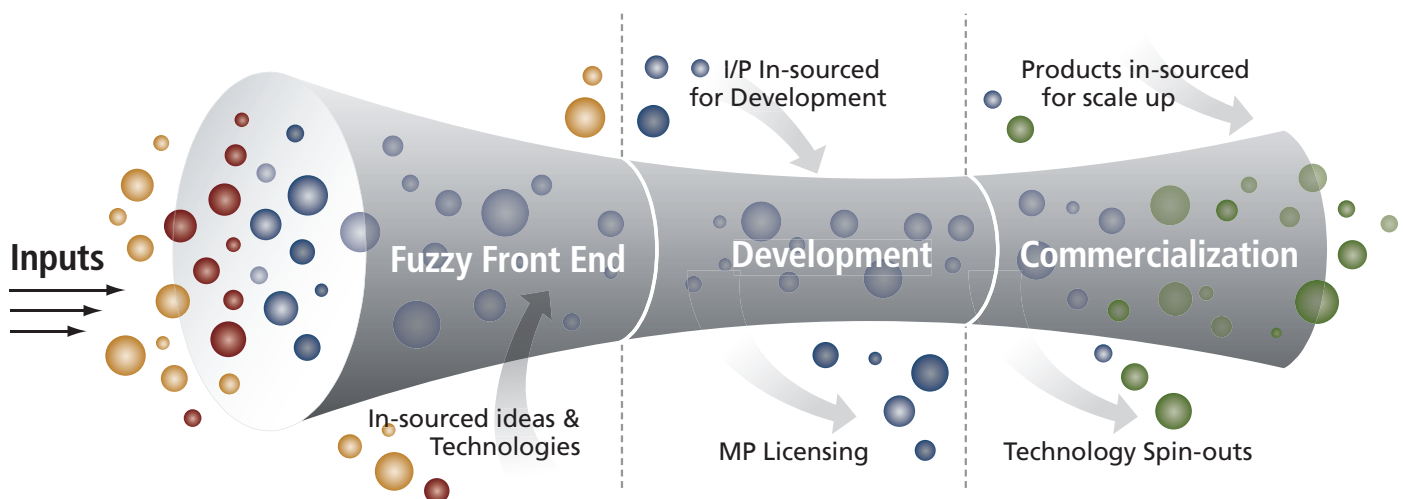


Figure 1: Open Innovation.

Source: M. Docherty, Venture2 Inc.

(with concepts adapted from the book by Henry Chesbrough, *Open Innovation: The New Imperative for Creating and Profiting from Technology*, Harvard Business School Press, 2003)

Collaborative innovation is an open innovation strategy that enables consumer packaged goods (CPG) manufacturers and retailers to partner for profit and provide shoppers and consumers with more innovative offerings. Through work with CPG manufacturers and retailers, Kalypso noted an increasing interest in collaborative innovation. To better understand the drivers behind this increased interest, and to learn how manufacturers and retailers are working together in a market where they are often both customers and competitors, Kalypso conducted a research initiative with thirty global manufacturers, retailers, and brokers—80 percent of which are Fortune 500 companies.

Interviews were conducted with executives including CEOs, COOs, Presidents, and leaders in Sales, Marketing, Innovation, Retailing, Supply Chain, Logistics, and other operational disciplines. The interviews identified a number of insights and best practices that can help companies achieve more profitable offerings by working more closely across organizational boundaries.

Kalypto found that while many companies are claiming to collaboratively innovate, the right initiatives are not in place, and the right due diligence is often missing. The result: innovation that is not working to an organization's full advantage. While the urgency and need for collaborative innovation is clear, the questions remain:

- How does an organization know if they are implementing it correctly?
- How do they know where it fits into their business model?
- How do they make sure it is working most efficiently for them?

Key Insights

The research revealed six key insights:

1. Success in other industries provides valuable lessons.

CPG companies are showing growing interest in results achieved and lessons learned in other industries, where open innovation has been practiced profitably for years. Consider the following examples that demonstrate the power and success open innovation can have in transforming an organization.

- a. The development of Apple's iPhone applications is one of the shining benchmarks that transformed the company. Originally at launch, the iPhone had only a few software applications which led outside innovators to create additional applications and share them online. Apple recognized this innovation, identified the need for a formal third party development program, and today thousands of external software developers have written applications for the iPhone that have greatly enhanced its value.
- b. Rockwell Collins needed a faster way to transmit information between fixed and wireless communication devices to improve military pilot communication and safety. Internally, this technology development and certification would take years. Rockwell Collins identified Adapt4 LLC, a company that had developed a commercial cognitive radio technology previously certified by the Federal Communications Commission (FCC). Rockwell Collins successfully integrated the technology into existing hardware in just four months to create one of the first radios of its kind for the military.
- c. An \$87 billion manufacturer and distributor of medical supplies was looking for a cost effective way to wirelessly transmit patient health data from a monitoring device inside a patient's home. The core technology required to meet initial product specifications did not exist inside the company—or anywhere else in the world, for that matter—until the

company discovered a small university that had developed the technology and was looking for a way to commercialize it. The two parties negotiated a technology licensing arrangement and are currently planning to launch a product that has the potential to radically change the home health market.

And, successes in the CPG industry outside of the manufacturer-retailer relationship can also provide valuable lessons.

- d. Procter & Gamble (P&G) successfully developed a new type of Pringles, Pringles Prints, with customized words and images printed directly on each potato chip. Through its open innovation program, P&G discovered a small bakery with an ink-jet method for printing edible images on cakes and cookies. The company rapidly adapted the technology and was able to lower product development costs and time to market for Pringles Prints as a result.
- e. Kimberly-Clark launched Sunsignals, sun care products that monitor UV ray exposure, in just six months. Kimberly-Clark identified this small company's technology, and collaborated with them to introduce a self-adhesive sensor that changes color when a wearer is at risk of burning from too much sun exposure.

2. Relationship and business model paradigm shift is a must.

Leading CPG manufacturers and retailers pursuing a best practices collaborative innovation model are realizing strong early results. However, for those companies lagging behind, a relationship and business model paradigm shift is a must in order to stay in the race [see Figure 2].

3. Find the common ground with each partner.

Without a doubt, today's manufacturers and retailers are each facing significant, but different, challenges. For manufacturers, this may be that the biggest retailer is their biggest competitor; for retailers, it may be the mounting pressure to differentiate in the marketplace. Despite differing business imperatives, there is common ground that drives collaboration—strategic intersections between the retailer and manufacturer that will benefit both parties. These benefits are what form the foundation for the development of a common vision, driving the strongest relationships.

4. Collaborative innovation sounds intuitive, but many find it difficult.

Though seemingly intuitive, many CPG companies find collaborative innovation difficult—and daunting. Successful collaborative innovation requires a non-adversarial mind-set, a multi-level and multi-functional organizational approach, the ability to learn to speak “another language,” new metrics, and the willingness to share intellectual property. In other words, a complete internal transformation must take place before attempting collaborative innovation with external sources. What many companies fail to realize is that before innovating with a business partner, they must be certain that their own company is structured to collaborate. A clearly formulated innovation strategy that focuses on organizational behavior, processes, and capabilities is the key to success.

5. Collaboration and integration drive business growth.

The strongest common benefit for manufacturers and retailers is sales and profit increase. There is potential for a 15 to 20 percent sales and profit improvement opportunity via increased collaborative innovation. This can be considered blockbuster territory. Other benefits include improving idea generation and decision making with shopper and consumer insight data, providing consumers with more innovative offerings, reducing rework, increasing speed to market, and improving execution.

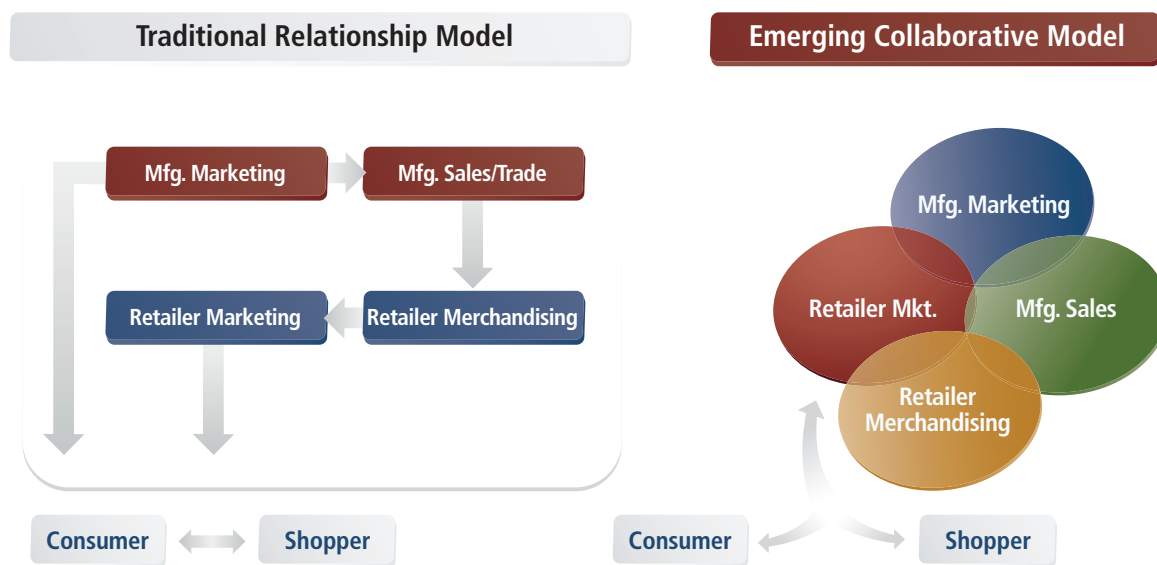


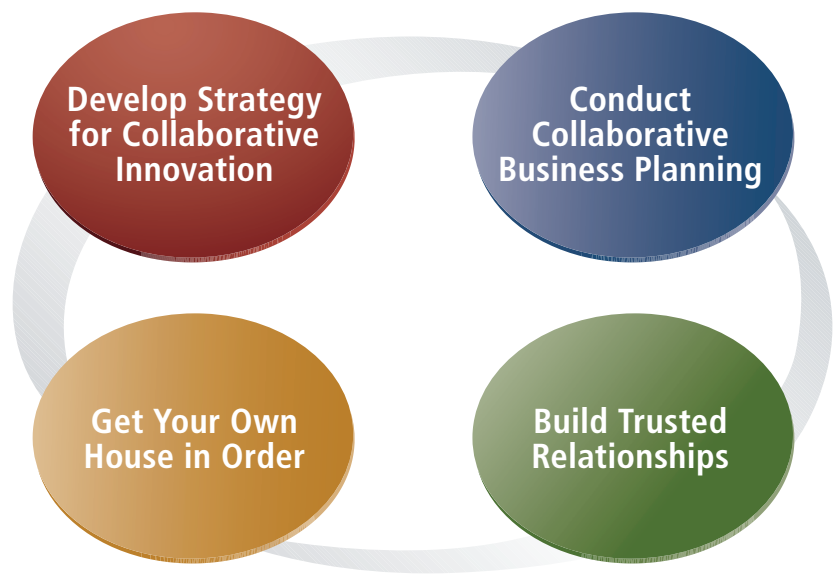
Figure 2: A relationship and business model paradigm shift is a must.

6. Collaborative innovation best practices fall into four fundamental groups:

- a. Developing a Strategy for Collaborative Innovation
- b. Conducting Collaborative Business Planning
- c. Getting Your House in Order
- d. Building Trusted Relationships

The research identifies best practices for each of these themes, allowing manufacturers and retailers alike to develop an action plan to adopt—or extend—collaborative innovation and increase profitability.

Figure 3: Collaborative Innovation Best Practices



The Urgency for Collaborative Innovation

The innovation objectives identified through this research initiative vary broadly by company based on their target markets, their supply chains, and their business strategies. Despite the wide variation in goals, collaborative innovation appeared frequently among the top priorities to achieve innovation objectives and ultimately to grow profitable sales. Overall, 95 percent of companies felt collaborative innovation was very important to achieving their business objectives.

The following quotes highlight the importance placed on collaborative innovation by participating companies:

“Extremely important, it’s the highest ranking. If you’re not collaborating, you won’t be around in 20 years. You’ll be gone.” – CPG company

“Very important, especially as there is more focus on private labels and more pressure on national brands.” – Retailer

“Very important; as media becomes more expensive and less effective you need to figure out how to leverage customer ideas.” – CPG company

“Very important—when the customer wins, you win. You need to know what makes your customer tick and help them with it.” – CPG company

Other comments underscored the importance in relation to corporate strategy, identifying collaborative innovation as “the top of the top three priorities,” “the third strategic pillar,” or “one of the six strategic pillars.” One manufacturing company summed up the priority for collaborative innovation by stating that “otherwise it’s just negotiation on price.”

Why is Collaborative Innovation Such a High Priority?

Clearly, collaborative innovation is getting significant attention, which leads to the question, “Why is this a top priority for both manufacturers and retailers?” While there are some commonalities between the two groups, the view is different depending on a company’s role in the supply chain.

The Manufacturer’s View

Like all industries, the manufacturing industry is dealing with the implications of the economic downturn of 2008 and 2009. Downsizing has reduced organizational capabilities, and left them with scarce and stretched R&D resources. This means that manufacturers have to focus innovation resources on the best possible revenue opportunities, having to make difficult choices between portfolio options.

“Due to the focus on price in Europe, the quality of innovation has suffered. Manufacturers are so squeezed on price that they can’t afford to innovate. The ‘voice of the product’ is not being heard. Due to the lack of innovation, there is a sea of sameness.” – CPG company

At the same time, manufacturers are facing unprecedented change in their relationships with retailers. Their customers—the retailers—are continuing to consolidate. As one manufacturer said, “The big will just keep getting bigger.” This has shifted the balance of power further towards the retailer, resulting in diminished brand power for many manufacturers.

“Retailers have gone from shelf management to category management. With shelf management, retailers carried A, B, C, D, private label and store brands. In the move to category management, many retailers have eliminated B, C, and D brands.” – CPG company

“If you have a strong brand, like Coca-Cola, the retailer has to accept the terms of the brand. If you can’t differentiate, it’s just a price negotiation.” – Retailer

“In Europe, they just started collaborating with retailers. Manufacturers are doing this because they have to, not because they want to.” – CPG company

Manufacturer’s View

- Scarce resources drive allocation to best possible revenue opportunities
- Retailers are consolidating
- “Biggest retailer may be biggest competitor”

Figure 4: Top Business Imperatives for Collaborative Innovation: Manufacturer

In addition, retailers have increasingly invested in bringing their own brands to market. The combination of consolidation and strong store brands means that some manufacturers must recognize that their biggest customer may also be their biggest competitor—at least in some categories. The changing relationship between retailers and manufacturers brings up some significant questions, including:

“Whose equity will be more important, the store or the brand? This will be an interesting dynamic to understand in the future.” – CPG company

The Retailer's View

Retailers are looking for innovation in their own products, but also in the store. Retailers need to differentiate based on the products they carry, but also on the shopper's experience. As one retailer said:

"How do you design a store around the shopper? Most stores are not designed with the customer in mind." – Retailer

"For the manufacturers, it's about product offerings and consumer needs. For the retailers, it's more about process than product. You can have the best product in the world, but you need the best process to get it into stores and sold." –Distributor

Retailers are also challenged with rationalizing the brands and SKUs that they carry, and trying to determine to what degree they should pursue vertical integration.



Figure 5: Top Business Imperatives for Collaborative Innovation: Retailer

The Common View

Of course there are also commonalities between manufacturers and retailers that are driving this phenomenon.

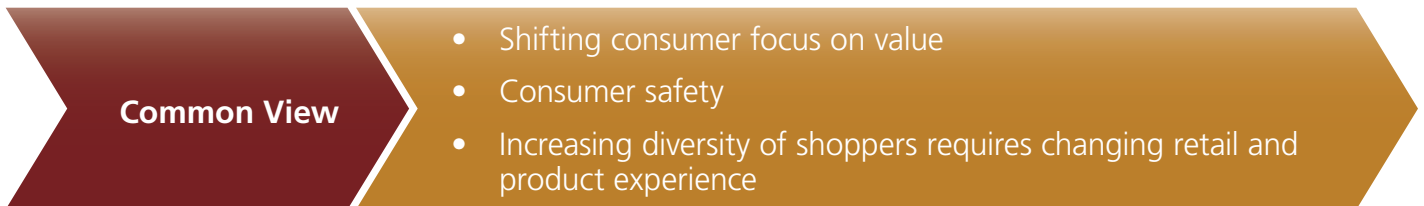


Figure 6: Top Business Imperatives for Collaborative Innovation: Retailer & Manufacturer

These include the global economic crisis driving a changing consumer focus on value, the need to streamline supply chains, and the need for consumer safety (particularly in the food industry). The primary common goal is to please the consumer and gain greater market share. As one major manufacturer said:

"The key driver is the focus on the consumer and the desire to partner on the consumer." – CPG company

Benefits of Collaborative Innovation

Regardless of the drivers, collaborative innovation benefits both manufacturer and retailer. One of the key benefits, of course, is to provide more innovative offerings to consumers. By better understanding customers' needs and desires, manufacturers and retailers can develop a more compelling offering.

"True collaborative innovation starts with insights that are developed into products, packaging, and promotions." – CPG company

One element of collaborative innovation is joint business planning (JBP). JBP aligns the goals of manufacturer and retailer to identify opportunities for win-win product offerings. Of the companies interviewed, 81 percent stated that they utilized some form of JBP that addressed the needs of their strategic customers. One manufacturer describes their results:

"The approach was to use 'strategic intersections' between our priorities and the customer priorities. One program identified intersections around the power of big brands to drive impulse purchases, resulting in a 30 percent increase with the retailer and 17 new items." – CPG company

Another retailer discusses how combining insights from the manufacturer's perspective (consumer intelligence) with the retailer's perspective (shopper knowledge) helped expand and strengthen their relationship.

"Our customer [the retailer] was interested in branding the department. We used our company's insights to help them make the aisle more shoppable and could tell the retailer that consumers using one of their brands were also the shoppers. We built the commercial idea and research to deliver against this target together. They jointly expanded the brand into category adjacencies, which was a win-win for the customer and manufacturer. Currently the customer is exclusively carrying these products." – CPG company

Innovation can take many forms, including enhanced "shoppability."

"We successfully worked with retailers to implement new shelving in the store. This has had many benefits, including improved shoppability for consumers that has increased sales by 10 percent." – CPG company

Of course, the one benefit that drives the interest of most companies is growth. Manufacturers and retailers are gaining an increase in sales and profits and blockbuster results by jointly growing the category. By working together, they can develop better promotion vehicles, enhance in-store support, and develop unique, value-added offerings for both the retailer and the manufacturer.

"We experience consistent, profitable growth with customers where we're collaborating. For example, we grew \$85MM out of one collaboration session with a major retailer." – CPG company

Of those companies that claimed to incorporate the needs of strategic customers in their planning, 58 percent felt their joint planning was strong or better. Better collaboration offers other benefits as well. Multi-functional alignment reduces rework, improves speed to market, and improves execution. Working together, manufacturers and retailers can focus on developing more efficient use of resources and streamlining processes, resulting in less waste in product development and supply chain. As one manufacturer conveyed, “We spend less on inefficiencies due to being late and misaligned.” The goal is to reduce total cost to the consumer, or as one CPG company stated, “We are developing a supply chain that efficiently delivers products to the consumer and removes cost from the system.”



Figure 7: Mutual Benefits

Manufacturer-specific benefits

Manufacturers have much to gain from working more closely with retailers. Manufacturers have the opportunity to obtain insight into shopper needs and behavior from their retail partners. Armed with this information, they can focus on meeting the needs of both the end consumer and the individual making the purchase.

One company interviewed described the opportunity in a case where a beer manufacturer clearly did not understand the buyer, influencer, and end-user dynamics. Seventy-four percent of beer is consumed by men, but 63 percent is purchased by women. The manufacturer put the beer into large containers that were difficult for women to carry, thus creating a disconnect between product and the shopper.



Figure 8: Manufacturer Benefits

Numerous manufacturers pointed out the value of learning from retailers:

“Our company knows a lot about how people consume our products, but not how they shop them. Until two years ago, there were brand plans with no customer plan.” – CPG company

“Until now, they didn’t ask about the voice of the shopper/customer. Now that they’re doing a good job with the consumer, they can address opportunities with the retailer/shopper.” – CPG company

Collaborating with retailers allows manufacturers to focus on the needs of the shopper, a focus they don't have on their own. Retailers can help them focus on consumers across departments and categories. By gaining consumer and shopper insights, it helps manufacturers differentiate and drive equity with the retailer.

"Through organized brainstorming sessions with the customer, we get concepts that include the retailer's input. Automatically, these products are accepted and supported by the retailer. If a retailer is involved, there is a 100 percent chance of getting distribution. If they're not involved, there's about a 50 percent chance of getting distribution." – CPG Company

Another benefit to manufacturers is the ability to gain access to more retail space, and to increase the success ratio of new items. After all, as one company said, "If it's the customer's idea, you don't have to sell them on it."

Ultimately for the manufacturer, it is about becoming a better partner for the retailer, and ensuring that their products will play a key role in their differentiation and shopper strategies:

"We want to build indispensable relationships. These relationships would result in an invitation to the planogram where we would gain insights into where the retailer wants to take the category in the next 3 to 4 years." – CPG company

Retailer-specific benefits

From the retailer's perspective, collaborating on innovation with manufacturers is a way to provide a differentiated shopping experience for their customers. As retail strategies have evolved, so have relationships with manufacturers. While manufacturers are focused on increasing the market

share of their product, retailers are looking to improve their customers' shopping experience. By making their stores more shoppable, they aim to increase closure rates and basket size. The retailers' objective is to differentiate manufacturers' offerings to meet their shopper strategy, allowing them to better compete in the difficult retail market.

Retailers have a better view of the shopper, if not the ultimate consumer of the product. Many retailers are offering total solutions to the shopper by bundling offerings, including meals, beauty, or other combinations that make shopping more convenient.



Figure 9: Retailer Benefits

“Retailers have changed. Twenty years ago they promoted brands. Now, they figure out positioning of stores, leverage loyalty cards to drive growth, and analyze shopper data. This has been an evolution.” – CPG company

In addition to shopper data, retailers have a significant opportunity to gain insight into consumer needs and behavior by working with the manufacturers.

Another form of value and differentiation for retailers is through private label and store brands. Many retailers have chosen destination categories where they have decided to invest in their own product lines. With the addition of private label brands, it will become increasingly imperative for manufacturers to implement a collaborative innovation strategy to compete, and potentially survive.

“Private label can be a differentiator for a retailer. You need to collaborate with a differentiated supplier who can provide differentiated product. This supplier should also be low cost and give you differentiated products.” – Retailer

Despite the challenges, the value is available. As an example, one manufacturer created a joint end-aisle display with the retailer’s private label brand. The promotion consisted of store ground beef, brand name tortilla, brand name salsa, and store seasoning. This is a win for the retailer, private label, and the manufacturer.

Business Model and Paradigm Shift a Must

Manufacturers and retailers engaging in a true collaborative innovation approach are achieving more innovation, enhanced shoppability, and better alignment. From a profitability perspective, they are jointly achieving higher revenue coupled with reduced cost to grow profitable business. Clearly, the potential benefits are tremendous. However, in general many companies are only achieving pockets of success.

Almost unanimously, the companies interviewed stated that collaborative innovation was very important to achieving their business objectives. Yet, only 12 percent said they incorporated the needs of strategic partners into innovation planning. That means the vast majority had moderate to no consideration for the innovation needs of their strategic customers.

The disconnect here is obvious: companies know they need—and want—collaborative innovation but don’t know exactly how to do it. They are left wondering: “How do we know if we are implementing collaborative innovation correctly? How do we know where it fits into our business model? How do we make sure it is working efficiently for us?”

Instead of maintaining status quo with results that leave much to be desired, companies must move towards an approach that broadly and systemically deploys collaborative innovation within their company. The four best practices of collaborative innovation will enable them to do so.

Four Best Practices

1. Developing a Strategy for Collaborative Innovation

How can manufacturers and retailers build strong, win-win relationships and take advantage of the benefits of collaborative innovation? It starts with a strategy. Historically, there has been a dominant focus on cost negotiation as opposed to “win-win” approaches.

“The majority of the time in planning is spent negotiating an annual contract between suppliers and retailers. The P&L is driven by cost, but there is some opportunity to partner with retailers.” – CPG company

“The European model is more negotiation-based than collaborative.”
– CPG company

Despite the fact that many manufacturers believe it is the retailers that dictate the price negotiation mentality, CPG companies frequently aren’t aligned with the needs of the retailers either.

“The internal planning process is at odds with the customer. People understand it, but it hasn’t changed. They have added costs in the system from being in reactionary mode.” – CPG company

Both manufacturers and retailers have to change their approach in order to gain the benefits available from collaborative innovation. It requires companies first to develop a strategy based on categories or brands best suited for collaborative planning processes. The strategy should also include a decision making process to determine which partners are good candidates.

“Choosing strategic customers and involving them is a best practice. This is not for everyone, because it’s time consuming and expensive. It’s a technique predominantly used by larger companies and an A-Brand.” – CPG company

While it is hard for smaller companies to get the attention of larger companies, size should not be the only factor in determining the right categories and partners to focus on. As one major CPG customer pointed out, “strategic customers don’t have to be big; they can be strong innovators.” There should be more to the strategy than just picking the largest retailers and most prominent brands.

Retailers will likely alter their strategy by category. The approach can start with developing and understanding destination categories and which categories to invest in as store brands. One retailer breaks their categories into three groups:

Private Label (Destination Category): There is much collaboration, especially when the category passes the point of needing more than two brands.

Private Label (Me-Too): There is less collaboration; this group mostly follows what the national brands are doing. Price and quality are more important here.

National A-Brands (Manufacturers): Almost all of the innovation is done here. There is an opportunity to collaborate to optimize logistics with the retailer. A manufacturer strong in innovation has the opportunity to negotiate better terms with the retailer.

This retailer gave an example:

“Fresh Vegetables is a destination category and is 90 percent a retailer brand which means 100 percent collaboration. Diapers are not a destination category. National A-Brands lead innovation in this category and private label quickly follows with better price for consumers and better margin for retailers.” - Retailer

For manufacturers, an assessment of their brand power in different categories helps set partnering strategy for collaboration. Following the lead from the retailers’ strategies, they must recognize where they are leveraging their brand strength and where they are competing on price. One CPG company looks at their customers this way:

“Customers are in two segments. For those that are price-driven, we focus on delivering low cost options. For those that are category development-driven, we partner with retailers and have added a category manager to help with this.” – CPG company

Still, many companies focus primarily on the size of their potential partner, with companies targeting collaboration with “their top 20 accounts” or “the top 20 brands.” Regardless of the approach, what is consistent is that companies are not blindly trying to apply collaborative innovation to all partners or categories, but are identifying the best opportunities. One leading CPG company even goes so far as to have “tiered business plans” ranging from those that have joint business plans with full complement of multifunctional resources down to those retailers with whom they are primarily in a “buyer-seller relationship.”

A tiered approach also allows companies to implement less intensive programs with customers that are in the top tier. For example, one CPG company suggests that companies consider “menu-based approaches that look like co-innovation” with other customers.

2. Conduct Collaborative Business Planning

A cornerstone of collaborative innovation is joint business planning (JBP). The goal of JBP is to align the goals and objectives of the retailer and the manufacturer around a number of categories or brands that they can jointly grow in profitability.

“Joint business planning is the single biggest way to drive growth in our business. If we could overcome collaboration and innovation barriers, we could drive innovation around the consumer and double our current high single-digit growth rates.”
– CPG company

Some CPG companies still hold the traditional view that retailers do not hold strategic insights that can drive growth. After all, CPG companies spend considerable time and effort understanding their products, brands, and consumers. Unfortunately, many lack understanding of the needs of the shopper and of the retailer. As one distributor pointed out, “the more removed you are from the customer, the less you understand them.” This leads manufacturers to develop and pursue “major innovation around new products for the consumer, but not for shoppers” as one CPG company pointed out.

“The senior managers in most CPG companies are from a brand background as opposed to a customer background. They grew up as marketers focused on brands, not with a customer/category/shopper mindset, which is different.” – CPG company

Working jointly with retailers, manufacturers can gain perspective on the needs of both the shopper and the retailer. Working with manufacturers, retailers have the opportunity to learn more about consumer behavior. Both can now share shopping data from loyalty cards or third party data. By understanding and aligning these needs, partners can develop a JBP that better meets the needs of the partners and drives higher profitability.

“We try to embed all of the customers’ needs into innovation. We are developing innovation summits for our two biggest customers, and gaining an understanding of their organizational goals and how to work with them.” – CPG company

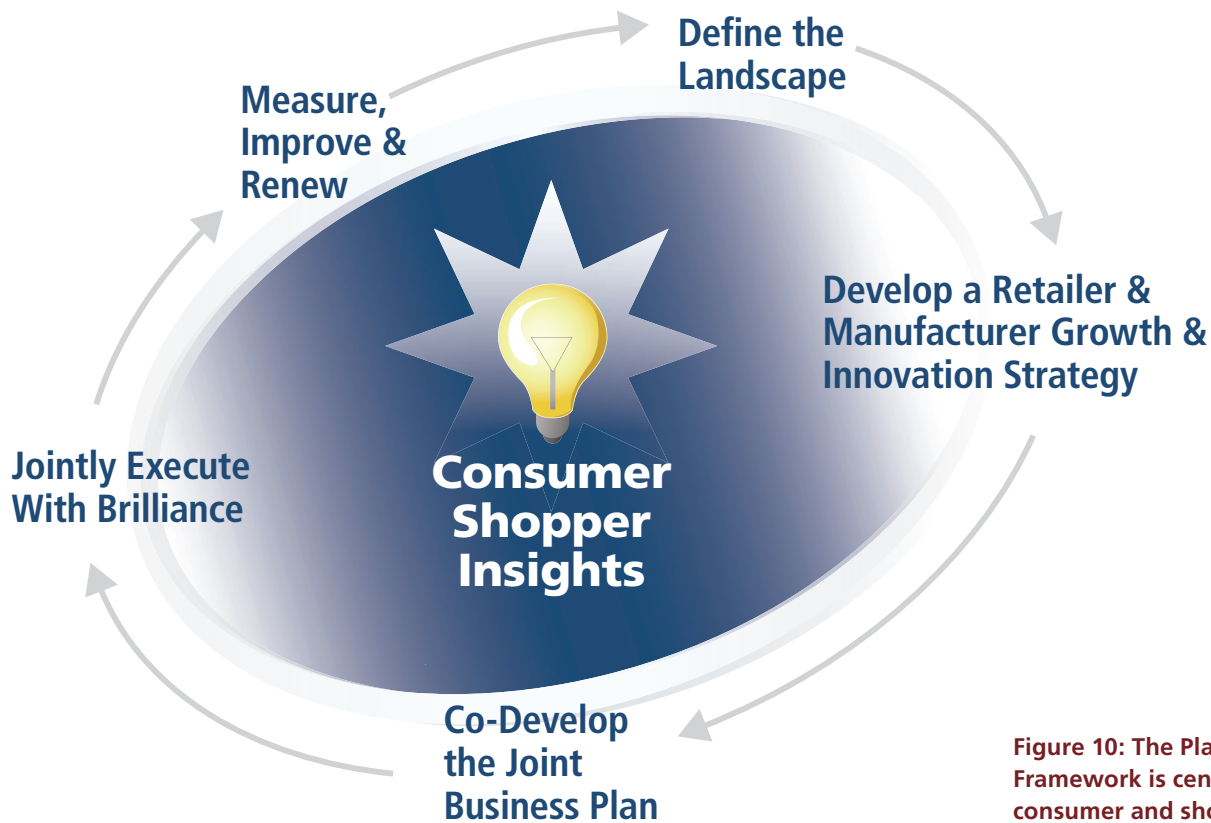


Figure 10: The Planning Framework is centered around consumer and shopper insights.

Unfortunately, the rewards and recognition systems are frequently misaligned between retail and manufacturing partners. Without changing internal incentive programs, JBP is set up to fail.

“Retailers and manufacturers are incented differently. This makes innovation tough. At the end of the day, people work against what they’re rewarded to do. In the retailer P&L, there is a number on what they expect to gain from manufacturers.”
– CPG company

“We focus on aligning retailer and manufacturer recognition and reward systems. Agreements made at the top need to cascade down into the organization. It is critical to change the behavior.”
– CPG company

Companies need to set joint objectives in their JBP and measure progress according to those metrics on an ongoing basis.

“The JBP with the distributors has a scorecard with key financial measures, full P&L, and marketing and multifunctional resources.” – CPG company

3. Getting Your House in Order

Perhaps one of the most challenging parts of developing a working JBP and executing collaborative innovation is overcoming internal obstacles. These challenges include management challenges, organizational challenges, and business process challenges. A successful program needs to start from the top.

“The only barrier is the executive level buy-in. It’s important for innovation and product success.” – CPG company

The main issue is focus. Company leadership must provide support, incentives, and resources for collaboration. But the focus can’t remain at the executive level; it has to be communicated throughout both organizations.

“Customer strategy is embraced at the top, but not the next level down.”
– CPG company

“The biggest barrier is strategy and organizational alignment. We frequently have great top-to-tops, but this needs to go down through the organization. By improving this, we will go from a transactional relationship to strategic partners who can engage in collaborative innovation around the shopper.” – CPG company

Manufacturers and retailers alike need to pay close attention to organizational alignment and structure. For the manufacturer, the relationship must go beyond the sales team.

“Sales ideates with the customer, but they don’t understand the costs. To fix this, they bring in Field Sales for operational workshops to understand timing, price point, and frequency. This helps educate Sales on what they can do.”
– CPG company

“Right now there’s a major disconnect between Sales and the rest of the company.”
– CPG company

Alignment between Sales and the customer is not enough to develop a win-win scenario. At the same time, it is important to involve Sales in the broader product innovation process, including the Phase-Gate process. Aligning the organization around processes is a good way to start because it helps people understand their role in the process, and where they can contribute.

“There is a huge gap in understanding across the functions. There is not a clear process in the planning cycle, which is systemic.” – CPG company

Many companies discussed process as a major challenge in collaborative innovation. For example, “the process is not consistent.” Another challenge is the lack of integration between collaborative processes and internal product development and innovation processes. JBP should be incorporated into the portfolio strategy, the ideation strategy, and the gated process. Companies need a rigorous, well defined, and consistent process that can be extended across the organization. Ideally, the collaborative innovation process has a direct link to the innovation pipeline:

“We would love to see input from the 10 biggest customers with ideas that get vetted during phase-gate.” – CPG company

Lack of integration between internal and external processes is also a challenge, with companies complaining that “customer needs are not always integrated” into the process. This requires adjustments to internal NPD processes, and alignment with sales processes.

4. Building Trusted Relationships

“If the process and timing were improved, we could incorporate customers’ needs into the innovation pipeline. Today, the people rather than the process move it forward. Customer needs should be baked into the process which would improve the overall system: better innovation with lower additional costs.” – CPG company

The ultimate goal of collaborative innovation is to partner on growth opportunities. One of the keys to this is building indispensable relationships. When a retailer is looking to develop a new program for their shoppers, the manufacturer wants to be the first one called. When a manufacturer is developing a new, innovative product, the retailer would like to have the opportunity to introduce it to the market. These relationships create a “barrier to entry for competition” and provide a competitive advantage. In practice, these relationships are difficult to build.

Frequently, lack of trust puts more focus on negotiating than on gaining more value from the consumer. Recent market conditions have made this worse, opening up old scars from bad experiences in the past:

“Due to the bad economy, retailers are getting squeezed. When retailers are getting squeezed, they go back to old behavior and try to squeeze margin.”
– CPG company

“The smaller retailers are joining buying groups. These buying groups are only interested in extracting margin from the manufacturers, not in innovation.”
– CPG company

To add to the challenges, a manufacturer's biggest customer may also be their biggest competitor. This, coupled with the fact that retailers are also working with other competitive manufacturers, raises concerns about losing intellectual property (IP). This requires a balancing act, but more importantly, choosing your partners wisely.

"Retailers today are brands themselves. There's a balance between offering greater value, and retailers leveraging this value for their own brands. We have had instances where retailers have almost beaten us to market with product innovation that we have shared with them. If the retailer violates this trust, we don't share with that retailer again." – CPG company

"We don't talk to all retailers the same way we talk to our best partner. We have more confidence in some retailers than others because they have proven to be trustworthy." – CPG company

"Europe has high penetration of private label; retailers take your ideas and reapply them to private label. Therefore, there is limited sharing in Europe." – CPG company

Legal measures and firewalls were mentioned by a number of companies, but others indicated that speed to market and working with the right partners alleviated that need. Depending on the company, the IP strategy should be developed carefully.

"Your key competitor can be your customer. Therefore, collaboration could result in the customer launching it themselves under a private label. To prevent this, put a contractual agreement together that indicates when we share concepts with you, we ask for two years of exclusivity before you can launch the product or we won't collaborate with you." – CPG company

Despite the challenges, companies can develop trusted relationships. Again, it is important to choose partners wisely. The relationships are difficult in categories where there is competition, but the benefits can outweigh the difficulties:

"The world's biggest retailer is trying to drive their private label into our aisle. It pays to be a part of the process; you have to think about things differently. You can't fight them; you have to figure out how to work with them. Some of the options are to partner with the retailer for promotion." – CPG company

Success Story: A Case Example

Consider the following successful case example that incorporates the four best practices for collaborative innovation.

Situation

A leading retailer was challenged with flat to declining sales from a strategic category that failed to deliver relevant offerings and shopping experience to younger shoppers and consumers. A manufacturer was experiencing the same trend on their traditional brand in the category as maturing consumers were spending less on category purchases. Both the manufacturer and retailer had identified this trend separately and were pursuing various low impact tactics to become more relevant to a younger target while retaining the core business and the mature consumer and shopper. However, these low impact actions were having little success.

Action

Manufacturer and retailer met and shared their category successes and failures and shopper and consumer insights. They jointly identified the need to provide a more relevant product assortment and improved shopping experience that targeted younger women. They decided to work collaboratively and develop a consumer and shopper strategy to improve the shopping and product assortment in the category. The manufacturer and retailer participated in a collaborative shopper and consumer immersion and ideation session to generate unique product and shopping ideas aligned with their strategic goals. A collaborative product and in-store solution was jointly developed, executed and supported by an in-store launch plan.

Result

The manufacturer formed a strategic relationship and developed a unique product solution that was integrated into the shopping experience - innovation led by the retailer for the retailer. This solution resulted in increased distribution and incremental sales growth. The retailer delivered an enhanced, holistic shopping experience targeting the younger shopper, which resulted in increased category penetration and sales growth.

Recommended Actions

With so much to consider, what should manufacturers and retailers do? Where should they turn for guidance? One option may be to learn from the Global Commerce Initiative (GCI), a joint venture between global manufacturers and retailers to determine better ways to work together. This organization is promoting best practice JBP.

Kalypso recommends companies follow a four-step process:

- 1. Assess**
- 2. Design**
- 3. Implement**
- 4. Sustain**

This measured approach starts with assessing the current state of planning with customers, and the internal readiness for collaborative innovation. It helps companies design best practice processes for JBP and account planning, align internal organizations, evaluate metrics, and integrate processes with internal product development processes. The approach also puts significant focus on implementing the new practices, including developing the capability of the organization to execute JPB, and collaborative innovation. This includes training and support on concepts as well as new processes, and developing top-level support.

A results-driven approach starts with a self-assessment, including the following questions:

- Is Sales part of phase-gate meetings?
- Are retailer, shopper and consumer needs part of the innovation pipeline process?
- For strategic retailers, is there a process and budget to collect retailer, shopper and consumer insights?
- Once strategic insights have been identified, are there marketing, finance, and market research cross-functional teams with a budget and process to develop and execute these ideas?
- Is there a process for vetting retailer ideas?
- Is there a process to handle firewall issues with the retailer's own brands and competition?
- As a part of the joint planning process, are there both joint sales building blocks and innovation building blocks that are aligned between the retailer and manufacturer?
- Is there a process to celebrate success to encourage additional collaboration?
- Does the manufacturer go to the retailer as one company across all brands? Are there franchise solutions?
- Are US retailers treated differently than retailers outside the US?

About the Authors

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