

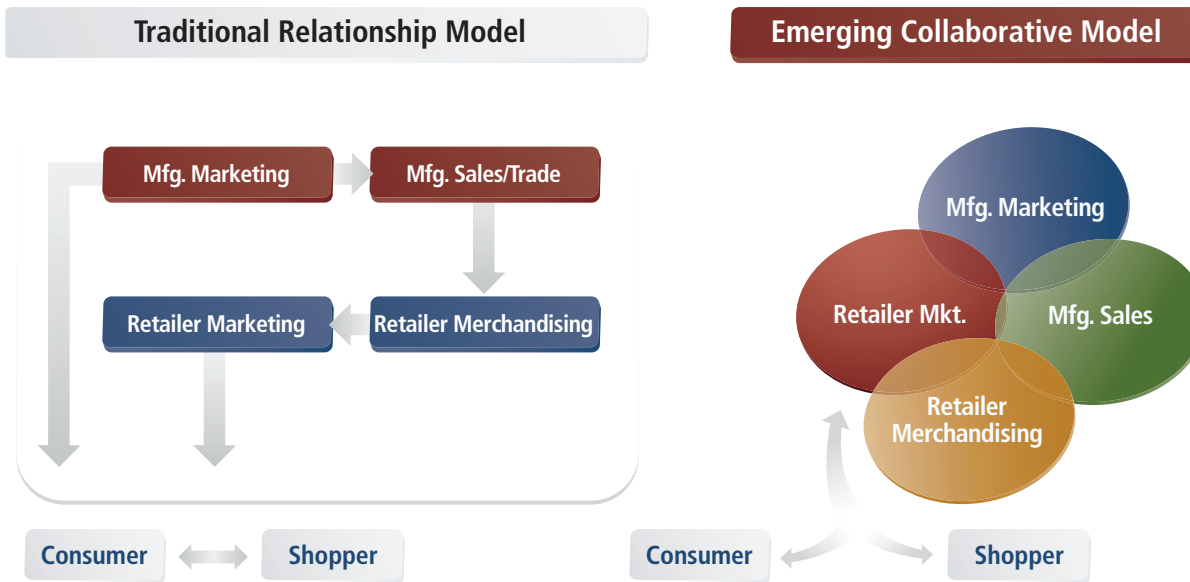
Collaborative Innovation in CPG: How Manufacturers & Retailers Can Partner for Profit

Today's industry leaders are competing to win with open innovation, working with many partners in the value chain—including universities and 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.

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.



What's Working for CPG

Without a doubt, today's manufacturers and retailers are each facing significant, but different, challenges. Despite differing business imperatives, there is common ground that drives collaboration. And, the value of collaborating is clear: manufacturers and retailers are gaining an increase in sales and profits and blockbuster results by jointly growing the category. In fact, there is potential for a 15–20 percent sales and profit improvement opportunity—blockbuster territory.

Figure 1: A relationship and business model paradigm shift is a must to stay in the race.

By working together, manufacturers and retailers can develop better promotion vehicles, enhance in-store support, and develop unique, value-added offerings for both the retailer and the manufacturer.

Other Benefits Include:

- Improving idea generation
- Incorporating shopper and consumer insight data to make better decisions
- Reducing rework
- Increasing speed to market
- Improving execution

Mutual Benefits
Shared sales and profit growth
Sharing shopper and consumer insights and data fuel better ideas and improves decision making
Provide more innovative offerings to the consumer
Better collaboration can lead to reduced rework, improved speed to market and improved execution

Figure 2: Mutual benefits of collaborative innovation

What's Not Working

Kalypso 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?

Conclusions

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. Companies know they need—and want—collaborative innovation but don't know exactly how to do it.

How to Get Started

Kalypso recommends an approach that broadly and systemically deploys collaborative innovation within an organization by following four best practices:

1. Developing a Strategy for Collaborative Innovation
2. Conducting Collaborative Business Planning
3. Getting Your House in Order
4. Building Trusted Relationships

For more information and to review the complete findings of this research, contact Mike Friedman at mike.friedman@kalypso.com.

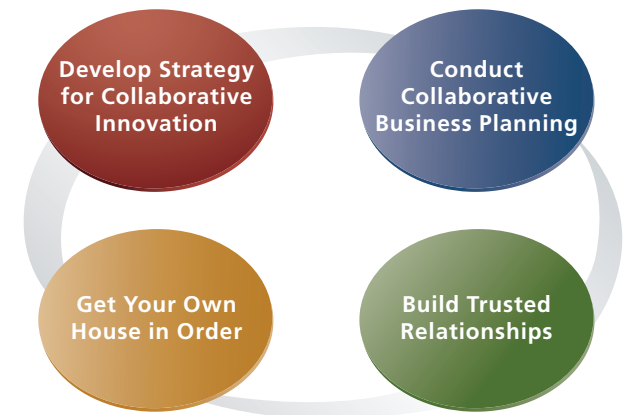


Figure 3: Four best practices of collaborative innovation

About Kalypso

Kalypso is the world's premier innovation consulting firm, helping clients improve profitability by delivering on the promise of innovation. Kalypso offers clients full service capabilities including Business and Innovation Strategy, Front End of Innovation, Portfolio and Pipeline Management, Development and New Product Introduction, Value Management, PLM Technology, Leadership and Learning, and Intellectual Property Services. For more information, visit www.kalypso.com.