



**Partner**

## **ECR: Efficient Consumer Response A Quick Primer for RETAILpartners**

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The hot buzzword in the Supermarket business these days is **ECR**, for "Efficient Consumer Response". This bulletin is to update RETAILpartners on the industry situation.

### OVERVIEW

The general idea of ECR is to improve the industry's capability to serve the shoppers while driving unnecessary cost out of the distribution chain. In fact, an industry study claimed that annual savings to the industry could reach \$30 **Billion**. Better selection and lower cost are old, classic targets, however, and nothing in this whole industry discussion represents anything really new. So where did all this sudden interest come from?

It has been argued that it came from Wal-Mart. Picture the situation where large, entrenched chains (not to mention Independent Grocers) found themselves suddenly unable to respond competitively to Wal-Mart's forays into the grocery business. In the grocery business for decades, these chains have been supposedly honing their skills and refining distribution, confident of their position and territory. Suddenly an upstart general mass-merchandise proves itself to be smarter, faster, more streamlined and more attractive to shoppers than the entrenched food companies. The question: "How did they manage to **do** this?"...

And it became clear that Wal-Mart had used information technology to knit together forecasting, proper buying, quick-response supply and an efficient vendor management, and that this had produced a ferociously competitive machine. The supermarket industry, with well-founded concern, decided they would have to learn to work at least as well.

Kurt Salmon Associates was selected to report on ECR's potential to FMI. According to the resulting study, the grocery industry needed to increase overall shopper choice and product quality while decreasing prices on the shelves. This all could be accomplished, according to Salmon, by increasing the overall efficiency of the grocery supply chain through reduction of inventory, warehousing and distribution costs. Moreover, Information Technology must be put to work to provide an "accurate information and high-quality products flow through a paperless system between manufacturing line and check-out counter with minimum degradation or interruption both within and between trading partners."

In other words, exactly the right amount of exactly the right products needs to flow smoothly, inexpensively and quickly between Supplier, Distributor, Store and Consumer. This can be accomplished by applying Information Technology to provide a timely and accurate flow of information in both directions through that same chain, from Consumer to Store to Distributor to Supplier and back again.

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## WHAT'S INVOLVED

As suggested above, there is nothing really new here. For example, the General Merchandise industry has long worked at implementing a "quick response" system. Also, many of the precepts of Quality Processes and Total Quality Management are integral to ECR thinking. But the Supermarket business is a massive infrastructure unto itself, and revitalizing its competitiveness in a short time is a massive undertaking. What will have to take place?

First, it seems to be generally accepted that some general principles are at work. First and foremost, nothing will be of any real value unless the shopper's situation is improved by offering a better selection, better quality products, increased convenience and lower cost. In fact, some ECR proponents believe that shoppers could save an average of 11% (!) while leaving stores, distributors and manufacturers more profitable as well.<sup>1</sup> (The belief is that if the food industry as a whole won't do this, another industry will.) But supermarketing can generate these improvements given the following:

- The rewards of the higher efficiency and higher profitability will be shared by those links in the grocery distribution chain which actually improve and provide better value.
- It will be impossible to accomplish the overall goal without a smooth, accurate and timely flow of information for logistics, manufacturing and marketing decisions. Although EDI and EDLP and "paperless transactions" are frequently mentioned in the same breath as ECR, those techniques are all just possible tools to accomplish the goal.
- The industry will need to pull together and to some extent re-engineer the entire distribution process. This means that the way Manufacturers work with Wholesalers, and the way Wholesalers work with Grocers will certainly need to change. Furthermore, the concept of "Critical Mass" continues to be raised: any new process would be futile for a company to implement, for example, if only 10% of its suppliers could manage to work with it.<sup>2</sup> In short, if only a few manufacturers or distributors commit to such new processes while the rest of the industry continues its win/lose negotiating style, then the entire effort will collapse leaving only individual organizations to succeed and fail on their own against the current and future Wal-Marts.

Furthermore the industry must drive these efficiencies to result in savings in the following "big four" target areas:

1. **Assortment** -- using shelf and category management to optimize sales per square foot and increased inventory turns.
2. **Replenishment** - use of automated ordering and intelligent systems to cut out-of-stocks, and streamlining the distribution system. Studies show average almost four months between the date of manufacture and the date of shopper purchase.
3. **Promotions** - these are currently designed to physically push product down through the distribution channel, whether required by shoppers or not. Efficiencies in inventory management and a reduction in forward buying, and cutting out such non-value added practices such as diverting and allowances will play a major role.

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<sup>1</sup> Imagine the success of a supermarket which was always priced 11% lower **across the board** than its nearest competitor.

<sup>2</sup> Picture the (lack of) payback from buying scanners, for example, if only 1/3 of all supermarket merchandise were bar coded.

4. **Product Introductions** - smarter product development leading to less waste in the new product introduction process will save a great deal of money from manufacturer to retailer. Some amazing statistics that get more amazing every year: more than 15,000 new products were unveiled into the food business in 1991.<sup>3</sup> Over 2/3 of these were line extensions, generally used as a tool to grab for additional shelf space. And at the end? Only 1% of these items succeed.<sup>4</sup>

#### RPS/SUPERMARKET AND ECR

As stated above, ECR is an idea and a set of targets to increase efficiency. It is not, nor will it be a requirement to implement a specific technology, system, or software program.

Nevertheless, it is almost certain that certain methods, many already existing in some form, will become more popular. The amount of data flowing between distributors and retailers will almost certainly increase, and the number and sophistication of in-store applications are almost certain to advance.

Fortunately, independents who choose RPS/Supermarket as their retail system are ideally placed to compete into the ECR world as it develops. RPS, in contrast to competing systems, offers:

- True open industry standards as the system core, using PCs and a pure DOS-based operating system. Most industry software is and will continue to be designed for these platforms.
- Full data access using standard ASCII and CSV formats.
- The full RPS/Supermarket API, which provides real-time and automatic redundant data access to system files.
- Customizable back office to integrate new programs as part of an ECR effort.
- Complete SIL interface, almost certain to be universally accepted as the dominant industry standard for distributor/retailer data communications.
- LAN workstations, allowing full access to system files while running important in-store applications unencumbered by performance limitations.
- Complete item movement and multiple-period history for each PLU, perfect for feeding the new era of category, shelf management, and automatic inventory applications.

As you can see, these new operating methods in the industry will benefit those who are positioned to take advantage of a wide range of Information Technology options. When it comes down to store level, RPS/Supermarket provides your Independents with the platforms, flexibility and tools they will need to compete not just today, but in tomorrow's ECR environment. To Your Success,

*Tony*

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*Tony van Seventer*  
*Director: Supermarket Systems*

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<sup>3</sup> That means 15,000 new PLUs to get into the item file, and probably 15,000 items to fit into the promotions file, too.

<sup>4</sup> And **that** means 14,850 PLUs to strip out of the item file, and 14,850 promotions to account for.