food forum

BY GLENN LLOPIS

The importance of value generation

To sustain the industry's future, retailers, brokers and manufacturers must turn to a new value standard to regain consumer confidence and strengthen supply chain performance.

Today, the food and beverage industry is operating in a period of uncertainty. Consolidation has fragmented supply chain performance, and the operating incongruities among supply chain participants have made it difficult to generate value in products, brands and services for consumers. As a result, the concept of "value" has become blurred as retailers lose consumer confidence and products and brands lose shareholder equity.

What does value mean in today's world? Value is no longer just about the price, quality and service relationship; it is about "value generation." Value generation is a continuous process that requires supply chain participants to integrate functional, operational and strategic resources to optimize cost efficiencies, product innovation and management integrity to create product and brand standards that breed consumer satisfaction.

Supermarkets retailers have created an operating environment that is confusing for consumers. With consolidation, store names have changed; the employees have changed; and product and brand selections have changed. The supermarkets where consumers once purchased only their staple goods have become destinations for banking, dry cleaning, photo processing and more.

But is that really the way to provide value generation? Supermarket retailers would do better to shift their decision-making approach from top-down, financially driven tactics to bottom-up, consumer-driven strategies. A balance between the two is crucial, but more often than not, value-generation decisions today are being compromised by tactical decisions that focus on optimizing margins vs. consumer consumption and satisfaction requirements.

Retailers should consider playing a more interactive and strategic role with manufacturers and brokers, which are primarily responsible for offering product innovation, merchandising and promotional ideas to stimulate retail sales. Because a few powerful retailers exist in each market, they now have the leverage to promote manufacturer brands and offer value generation across all categories to create consumer confidence and new consumption areas. While retailers have attempted to accomplish this using their own private label or controlled brands, consumers have detected a lack of innovation and quality and have fragmented their shopping across multiple channels in search of value.

Supermarkets aren't alone in failing to generate value. The role of the broker also has changed. Consolidation among retailers has led to consolidation among brokers, resulting in a broker community that has become more powerful and influential in the performance of products, brands and categories. A broker's ability to control the amount of time spent on a manufacturer's products and brands through activity-based accounting practices has forced many small and medium-size manufacturers to lose market share, margins and market representation.

The products and brands that retailers purchase may not necessarily represent the greatest value or generate the greatest consumer satisfaction—in most cases, they offer the greatest commission structure or require the least amount of service to generate results. This has placed a burden on small and medium-size manufacturers, which do not have the financial capacity to invest in retailer-specific programs. However, it is often these manufacturers whose products and brands may represent the greatest value-generating opportunity for retailers.

Brokers, like retailers, must become more strategic and less tactical in an effort to maximize value for consumers. While brokers have historically been used to sell products and brands, they now have taken a more active role in marketing. To become effective marketers, brokers must also become more integrated with manufacturer supply chain strategies. This will allow them to clearly understand the value of the products and brands they represent, but more importantly, the value-generating opportunities they can offer consumers.

For their part, manufacturers need to invest in product innovation and focus on channel-specific strategies. The increased cost of doing business has led manufacturers to focus on short-term survival tactics vs. long-term consumer-oriented growth strategies. In an effort to maintain margins, manufacturers have lowered product prices through the use of lower-quality, lower-cost ingredients. They've optimized plant utilization through increased participation in private label programs to gain economies of scale for their brands. And they've reduced internal fixed operating overhead with outsourced variable-cost strategies.

Manufacturers—both large and small—must assume an active role in standardizing how products and brands should be sold and marketed to regain consumer confidence. This effort should involve value-generation strategies that focus both product innovation and brand-building initiatives on channels and their respective consumers. The primary objective for manufacturers is to maximize operating margins through diversified brand and new product portfolios across multiple channels and categories. This will allow manufacturers to assume greater control of investment returns though the economies gained across multiple channels. □

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Food Forum is an opinion column designed to open discussion on industry issues. Submissions may be sent via fax to Priscilla Donegan at 203-730-9553 or e-mail at PrisDone@aol.com.