

Joe Berry Australian Retail Industry Executive Awards 2022

Topic-3 QB – Using Data for Better Supply Chains

Q. Supply challenges experienced through COVID-19 highlighted the need to think differently about our manufacturing, protection for production and how we plan for the future. Thinking about future proofing our supply, how can data analytics improve our production to meet the needs of consumers into the future? How can retailers work more effectively with supplier partners to drive successful outcomes for both parties through the use of this data?

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1. Executive Summary

The debate on the provision and use of customer data upstream in the supply chain rages. It's been one of the hot macro topics for retailers and suppliers alike since the first byte of transaction data was made available for sale years ago.

Since then, it's built its own economy with the sale of various data points to third parties now a major revenue stream for supermarket retailers, as well as the base for an entire suite of corporate businesses globally who earn their crust processing and presenting this data.

The COVID-19 pandemic has pushed the entire Australian supply chain to its limits and changed customer shopping habits forever. Online has surged, category mixes have been turned upside down, and don't even think about trying to complete trend analysis on the performance of even the most stable and basic products.

Now in a 'post-COVID' world, the way forward must be different. It must be more collaborative, it must be more transparent, and the visibility of data required *must* be freely accessible.

To lift retailer/supplier relationships to effective operational levels and adapt to the hypersonic speed in which the world is now changing, data sharing needs to be reimagined. Only by improving supplier and retailer abilities to execute what customers want, and how and when they want it, can a strategic, collaborative and largely free data-sharing model be truly able to benefit the industry.

With confidence of the most recent and relevant data available without the price tag, suppliers can look to improve on just-in-time metrics effectively to optimise working capital, production runs, energy usage and logistics operations to ultimately create true value across the supply chain.

2. Introduction

Big-data collection, provision and insight has been one of the major macro topics of the past decade. We've seen organisations across all industries embrace big-data in different ways and with varying degrees of success to the point where the use of

data has now become ‘a ticket to get in the gate’ instead of ‘a seat in the grandstand’ as it once was.

This has been accentuated by the supply chain pressures on supermarket retailers caused by the COVID-19 pandemic, floods, bushfires and global trade disruptions. The need to use data to drive upstream solutions to improve customer experience and supply security has never been stronger.

Data has also become one of the largest supplier cost components. With suppliers and retailers now calling out significant cost pressures¹ due to the extraordinary circumstances of the past three years, it’s now up to the retailer to consider how data can be used so suppliers can continue to offer value.

Strengthening partnerships has been a focus of the “big four” Australian supermarkets (Woolworths, Coles, Aldi & Metcash). Multiple programs, strategies, and public claims have been the frontline of the fierce battle for supplier’s preference.

Despite the global supply chain challenges of the last three years, and instability in key overseas markets, export is still a fast-growing avenue for Australian suppliers², thus retailers need to work even harder to remain relevant and preferable in the eyes of suppliers. In short, suppliers now more than ever need to *want* to deal with retailers, or they will simply find other avenues. The balance of power in the retailer/supplier relationship has shifted and now the data-sharing culture must change.

Another key environmental factor is around the increased cost to serve for suppliers. Australian production has become increasingly expensive, showing no signs of letting up with pressure to increase wages, increased cost of energy and the highest

¹ Walsh, L., Mitchell, S., Baird, L. and Sier, J., 2022. *Cost pressures challenge supermarkets, insurers*. [online] Australian Financial Review. Available at: <<https://www.afr.com/policy/economy/cost-pressures-challenge-supermarkets-insurers-20210905-p58oy3>> [Accessed 27 February 2022].

² Cooper, A., 2021. *Australian food and grocery manufacturing grows due to exports*. [online] Food & Beverage Industry News. Available at: <<https://www.foodmag.com.au/australian-food-and-grocery-manufacturing-grows-exports/>> [Accessed 27 February 2022].

logistics costs ever seen³. When compared against cheaper overseas markets, Australian manufacturing appears unfavourable, although crucial to local food security, supply stability and quality assurance, all factors made more prevalent by the events of the past three years.

An assessment follows of key data points used today, with the aim to validate the need for key datasets to be made freely available to suppliers.

Such provision would aim to promote production efficiencies, improved supply security and better value for consumers on a more sustainable platform for suppliers and retailers alike.

3. Understanding the Datascape

Protecting Australian manufacturing, ensuring security of supply for Australians in challenging times and the ability to plan for uncertain futures using volatile historical data, are key priorities for tomorrow's supermarket supply chain.

To achieve this, retailers must rethink historical norms with a more strategic, longer-term view on how to utilise one of their most prized assets, data. The part that might send a chill down the spines of retail executives everywhere is that to work, the solution must be largely free.

Retailer's war for the customer continues to rage, but the war for the supplier has just begun. Data is the key to victory. The way the big four operate with suppliers is similar in their procedural norms around range and cost reviews, contract negotiations and promotional planning that are indifferent in the grand scheme of things. This means the battle for the supplier will be fought on a different front. One of the key fronts where differentiation can be achieved is the treatment of data and the relationship it can form between retailer and supplier for value-creation.

³ Elmas, M., 2022. *Woolworths, Coles, Aldi suppliers push for higher prices amid soaring costs*. [online] The New Daily. Available at: <<https://thenewdaily.com.au/finance/finance-news/2022/01/24/woolworths-coles-aldi/>> [Accessed 27 February 2022].

It's now time for the successful retailer to reimagine data-value. This isn't an easy sell, this total shift in recognition and understanding of value will be a hard pill to swallow for those who are used to seeing data revenue on their P&L.

To move from a transactional revenue line to a strategic, value-creation model containing data provision, insight creation, outcome delivery and value recognition requires an all-new mindset at a retailer senior management level and must be backed up by tangible benefit.

First Thing's First

Given the immense cultural change required to enable a free-data market, we must break the model down into more practical pieces so benefits can be recognised quickly. Transaction data is the easiest and most useful for improving supplier's day-to-day operations.

Transaction data such as sales, volume, inventory, average sell price and stock-loss work to form a picture about performance, trends, and opportunities to improve margins and supply rates. It can also help enable more advanced analytics such as energy optimisation, working capital and consumables procurement.

By making this data-set free for suppliers for the products they supply, suppliers can better manage ranges within the retailer and their wider portfolios. They can identify opportunities, draw insights, and allocate resources, providing the maximum coverage to end-consumers, creating longer-term thinking and much more efficient strategic planning.

Many global retailers such as Walmart and Tesco have made varying levels of transaction data free in the past decade. More locally Woolworths and Coles have both made steps to provide free "scorecards" or point-in-time snapshots of range performance. While an encouraging step, this still falls short of the true value in providing line-item data in real time to suppliers.

By understanding a retailer's pain-points in the key metrics, as well as working capital, space-for-sales and the other more complicated metrics, a supplier can not only address their own production & operations opportunities, but effectively solve

problem statements retailers may not know they have, thus creating the foundations for truly collaborative, longer-term, customer-led partnerships.

The Holy Grail

While making transaction data available to suppliers is a substantial and a low-cost win, the longer-term provision of more complicated or sensitive datasets is where true value exists.

In the past decade the richness of customer data has grown exponentially. Now with 88%⁴ of Australians signed up to at least one rewards program, Woolworths and Coles have 50% and 34% of the total population signed up respectively⁵. The data can be used to identify purchasing trends and help with adapting new trends quickly.

This data is where money is for retailers and offsetting the uneasy feeling of no longer charging millions per-year in data subscriptions services will require a robust management model. The model needs to include structured governance, visibility of the end-to-end supply chain and collaborative retailer/supplier partnerships that many speak about, but few manage.

Firstly, addressing the criteria for partnership is key. Investment in data packages is an attractive and addictive income, however there is little accountability to utilise the data. It also isn't dependent on the supplier operating in a strategic or innovative category and is often subject to cuts when costs get tight.

The new model will tier suppliers, large and small, in a system that rewards good behaviour and business outcomes with higher access to data. Rewards based on the value added to customers, recognised through some of the core financial metrics, weighted against other factors such as service levels, quality culture and even qualitative feedback from their stakeholders.

⁴ Blake, D., 2021. *Australians' use of loyalty programs tested during pandemic - Inside Retail*. [online] Inside Retail. Available at: <<https://insideretail.com.au/business/australians-use-of-loyalty-programs-tested-during-pandemic-202105>> [Accessed 26 February 2022].

⁵ Bradney-George, A., 2021. *Coles Flybuys vs Everyday Rewards – which is better? | Finder*. [online] finder.com.au. Available at: <<https://www.finder.com.au/coles-flybuys-vs-woolworths-rewards-comparison>> [Accessed 26 February 2022].

The purpose of a tiering system is to incentivise those at lower-tiers to reach higher-levels to gain more access. This encourages both the retailer and suppliers to enjoy the upstream benefits in production, planning and logistics, and focus on the most important asset and their core revenue stream, the end-customer.

This measurement method is based on the supplier's ability to deliver to the customer need and is exclusive of their financial contribution. The financial contribution of the larger suppliers is still important to the retailer through marketing funds, trading-terms, promotional support and/or best cost, and these variables need deep analysis to ensure total net-value is retained. The difference in the new model is the supplier tiering for data access is *not* a negotiation variable, instead based purely on the ability to deliver customer needs, which removes size from the equation entirely.

For those lower-tier suppliers, or for ad-hoc data requests, the sale option can still be utilised at a cost-covering level as opposed to a profit-stream. This may incite more suppliers to use data effectively and work more closely with retailers to build customer-led strategic plans, as well as building this data into their own demand planning and time-of-day-day-of-week planning.

It's a big leap to think of retailers providing data at no cost to improve supply security, supplier efficiency and product lifecycle management. Considering the past three-years, the benefits of aligned retailer/supplier plans and processes have been recognised time-and-time again through improved DIFOT, mitigated supply risks and reduced costs.

If data can be more openly shared for the true benefit of the industry, the customer benefit will undoubtedly be improved.

4. Conclusion

The last three-years has seen Australia face-off against unprecedented challenges. From bushfires, to floods, to COVID-19 paired with all the other macro-economic factors challenging households, an environment primed for major disruptive change has arisen.

A major part of this change *must* be retailer/supplier relationships. Since 2020, supply security in the Grocery sector has become one of the biggest concerns of the developed world⁶. The only way to truly achieve this is through long-term partnerships between suppliers and retailers and the only way to execute this is through a customer-focused supplier tiering model, of which free-data sharing is the key.

This change in thinking for retailers is not one to be taken lightly. It must consider total value-creation as opposed to the short-term view of revenue. Whether the current models can support the exponential expansion and volatility of customer demands and global supply factors.

By providing transaction and customer data mostly free-of-charge, retailers can count on supplier preference, improved costs, smarter category decisions and a more aligned, longer-term end-to-end strategy. All these benefits will create a better customer experience which improves market share, customer retention and profitability for all.

⁶ OECD. 2020. *Food Supply Chains and COVID-19: Impacts and Policy Lessons*. [online] Available at: <<https://www.oecd.org/coronavirus/policy-responses/food-supply-chains-and-covid-19-impacts-and-policy-lessons-71b57aea/>> [Accessed 27 February 2022].