

Next Gen Efficient Consumer Response (ECR) - The New World Order

By Joe Hunt

With a couple consumer products supply chain conferences coming up that I'm speaking at, I thought I'd share my most recent manifesto as my newsletter article in this issue. Virtually every day, the headlines reads something similar like "Consumer Brands Struggle". Anytime a person, a market, or an entire industry gets blindsided by a disruption or disruptor, someone was asleep at the wheel. Many in the CPG industry may have thought, "We've been paying attention to our surroundings," but for those of us not in denial or frozen like a deer in headlights, it should be vividly clear we were, in fact, not paying close enough attention.

As a rule, it's not wise to look back over our shoulder. Backwards is not our destination. The only benefit to looking back is to quickly remind us of things we should have learned from the past.



"Agility is the new scale" - Benno Dorer, CEO of Clorox

For those of us that were in the CPG or retail business in the 1990's, you'll remember the impact and follow up work the Efficient Consumer Response (ECR) movement started. ECR was characterized by the emergence of new principles of collaborative management along the supply chain. It was understood that companies can serve consumers better, faster, and at less cost by working in collaboration with trading partners.

At the heart of ECR was a business environment characterized by dramatic advances in information technology, growing competition, pressure on margins, global business structures, and consumer demand. It focused on better choice, service, convenience, quality, freshness, safety, and the increasing movements of goods across state borders.

This new reality required a fundamental reconsideration of the most effective ways of delivering the right products to consumers at the right price. Non-standardized operational practices and the rigid separation between the traditional roles of manufacturer and retailer – along with the lack of collaboration between them – threatened to unnecessarily block the supply chain. It also failed to exploit the synergies that came from powerful new information technologies and planning tools.

To better serve the consumer, ECR set out to invert the traditional model and break down non-productive barriers.

Many argue that ECR was the last seminal moment in the consumer products industry. Considering that was twenty-five years ago, and today, 50% of CPG growth is coming from brands that are not even among the top 100 brands, should be evidence enough the industry and its major players have at best been spinning its wheels, despite all the noise around innovation.

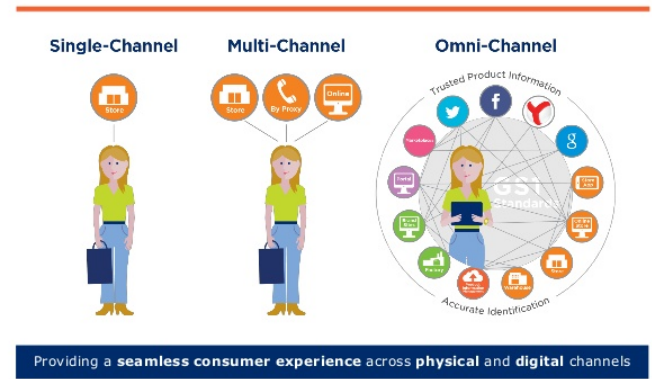
Throughout ECR's evolution, the industry has discussed many things, set the stage for the fundamental pillars governing the industry, and moved the needle on important topics ranging from Supply Chain Intelligence, Category Management, Trade Promotion Optimization and New Product Introduction among others. While much of this work still stands, it's nowhere near enough to help the industry make the requisite next-level leap forward in the face of the new world order (which many blame on Amazon). This accelerating disruption is irreversible and imminent. We must embrace and welcome the digital future that's before us, and develop a new industry playbook for navigating its challenges.

Consumer Crescendo

The fundamentals of the industry are shifting on the axis of knowledge and information. Consumers are the determinant of how the future industry outputs will be applied. They are the ones who are making the decision on how to buy, what to buy, what they are going to pay, and how they want it delivered. Consumer habits have changed due to numerous factors:

increased recognition of health & wellness, sustainability, certified sources, corporate integrity, fair wages, etc. Consumers have become significantly more aware, and evaluate how things impact their home, neighborhoods, environments and the global community.

Retail from a consumer perspective: standards make it possible



On top of everything, the connected consumer demands frictionless commerce. Drone delivery may not be a reality next year, but there is no doubt its coming. We already have lockers, click and collect, and direct to home delivery. The impact of these innovations and evolving consumer expectations on grocery is well documented.

We don't need a crystal ball to see we're going to experience an increase in challenges to meet these expectations and implement innovations. Even if the industry does most of what we say we're going to do now, Amazon is already on to the next evolution, which will once again contribute to more seismic shifts in consumer expectations. They are thinking through what they do, manage and own.

We can no longer just think about end to end supply chain. The new world order requires we think about the consumer, end to end. That's what Alexa, Google Voice and everything important is all about.

Truth or Consequences

Amazon is clearly not asleep at the wheel. This means other companies must work to catch up and learn how to see around corners too. I've invested some time looking back in service of learning from the past, and when I re-read the original ECR report, I realized it did a lot, but did not do what it set out to accomplish. It was intended to be an identification of cost take-out, which would have permitted the industry to compete more completely with the Walmart onslaught of the time. That's not what resulted.

We stood up some great processes that have governed the industry and it made a big difference, but despite that, consolidation in the grocery industry happened anyway. Hundreds of independent grocery retailers became a handful of holding companies. Even someone taking out Kroger would not be a surprise. With today's acquisition climate, we could soon be counting them with the fingers of one hand.

In a sense, and at an accelerating pace, the same thing has happened to the manufacturing set. One after another, big and small, many are fusing to a few. Most companies are being built as bait to attract the barbarians at the gates whom were demonized not too long ago. For most, living to fight another day is the highest quality of life they expect.

This is the industry's best effort in dealing with the consequences through more efficient means, methods, and go-to-market strategies. In consolidating, you get scale to grow. If not organically, inorganically, and therefore can show shareholders return, and keep the company (and your job) alive.

While there is always more to come, much consolidation has already occurred. Are we going to end up with only two or three grocery chains? Are grocery stores even going to be relevant to consumers in the future?

Don't misunderstand me. I'm not saying the sky is falling, but the landscape is becoming unrecognizable. It should be abundantly clear to all, we're living in a new world order, guided by an upstart player in Amazon. There is no going back from that now, and no one is going to prevail trying to fight Amazon at their own game. The question is how are we going to deal with Amazon?

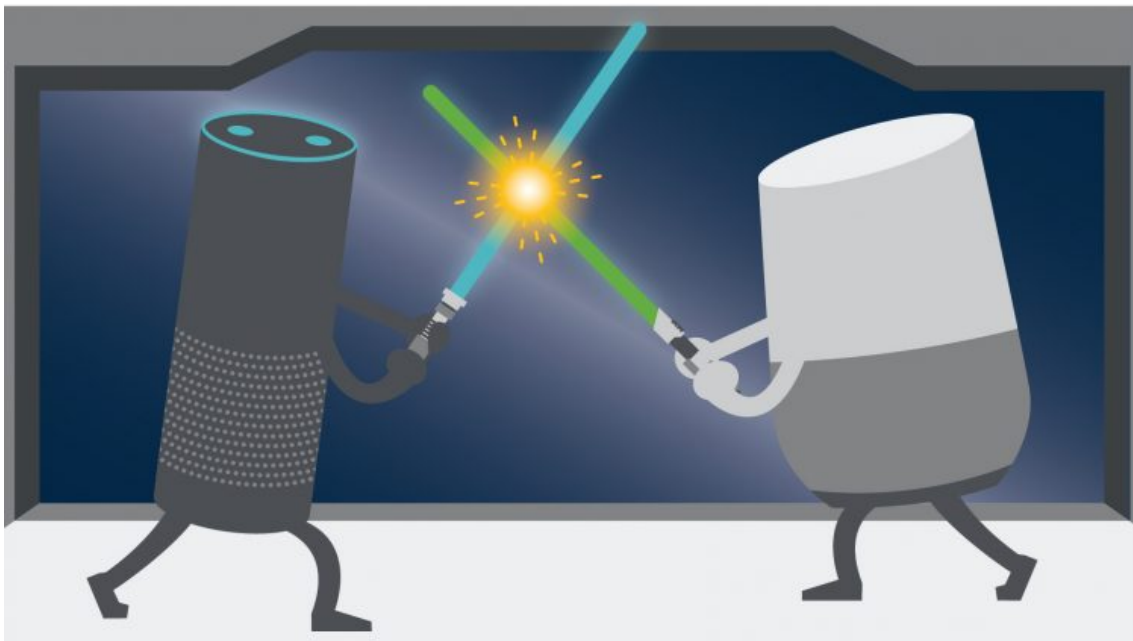


Despite the best efforts of some, nothing in the universe remains static. You're either growing or you're dying. Very few in the consumer ecosystem are growing in their current form, which means most are dying or changing beyond recognition.

It's no secret our retailers are in the biggest trouble in their history. Irrespective of whether someone takes out Kroger, more reorganization and layoffs are coming. Most retailers are trying to beat off Amazon and new market entrants like Lidl with price discounts – a strategy we all know is a death spiral. We need much more than that. Amazon has the capital and the will to outlast every player in the game.

It should also be vividly clear that our iconic national brands have the fight of their life ahead of them to remain relevant, let alone profitable. Big brand cereals, PB&J, mac 'n' cheese, canned soups and other product which have historically made up the center aisle must reinvent how they sell and market their products in the new world.

As every branded CPG manufacturer decides it's going to sell through Amazon sites, it's essentially funding its competitor. Nearly every product a CPG company makes is going to be bested by Amazon 365 or a private label equivalent. The implications are going to be far deeper than the private label equivalents that exists today. Amazon is not only going to own that capability, but they are inevitably going to channel the consumer to conclude their brand is just as good as the national brand, and a lot less expensive. Consumers will bite. I assume and certainly hope the manufacturers already see this coming.



When Alexa or Google Voice, asks the consumer why they would want to spend \$X when they could save so much money by switching to an equal or higher quality private store branded product, do you think the consumer is going to try and argue logic with AI?

As a bipartisan in the industry, I don't mind saying what others may not want to admit. ECR of the past was all about dealing with the implications of Walmart entering the grocery industry. It was scaring the daylight out of everyone, because they saw Walmart becoming the behemoth market share monster that it did. Today, we've got the equivalent of that, except with a 10X factor in Amazon and again everybody's head is spinning, including Walmart.

It's no longer about trading partner relationships by themselves. The consumer is at the center of all things. Virtually everything is up for grabs. The time to act is now, but what do you do?

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I sat in a CPG executive conference session a few months ago where most of the top CPG/ Retail strategy and management consulting firms were represented on a panel. Without exception, each admitted they don't know what is going to happen, and virtually none of their clients have any idea what they need to do.

As I listened, I more clearly realized that within the ignorance of our industries smartest people, experts and futurists resides a significant opportunity. We need another seminal initiative in CPG/ Retail capable of providing market clarity and enabling companies to take control of the rudder and course correct against market disruptions. We need a ECR do-over – one which provides clearer vision and insights our companies can calibrate their compasses against and empower them to use the prevailing headwinds we face to their advantage. I think the seminal moment could be a ECR reboot.



Why ECR 2.0?

ECR recognized trading partner relationships, drew out into the open the fact that the cycle of trade promotions was essentially a buy off. We were front loading and buying volume. Retailers were making money on the buy.

We were diverting, which led to all kinds of inefficient processes.

Category management didn't really exist until ECR made CatMan about data and introduced reasoning to why a shelf should look the way it should. Trade promotion did the same thing. Supply chain intelligence wasn't about push, it was about managing the whipsaw effect between supply and demand in order to equalize that and ensure a smoother process. That never fully worked out, but things are better than they otherwise would be.

ECR shifted the game and opened opportunities for all stakeholders in the industry – manufacturers, retailers, consultants and technologists. Everyone got involved in the processes, came up with technologies, solutions, and reinventions of various things. ECR codified a way forward. The industry drove it for the past two decades, but as good as that was, it has effectively served its purpose as best it could.

We need a new way forward. We need to recognize today's connected consumer; recognize that if a grocery store is going to do click-and-collect, it's going to have to reinvent its supply chain from front to back, not back to front. It's not about supply management, it's about demand management.

In reconciliation of the fact that today's connected consumers have moved the needle beyond what the industry generated for itself, the most important question to ask right now is:

“What is your change offering going to be and what are you going to do?”

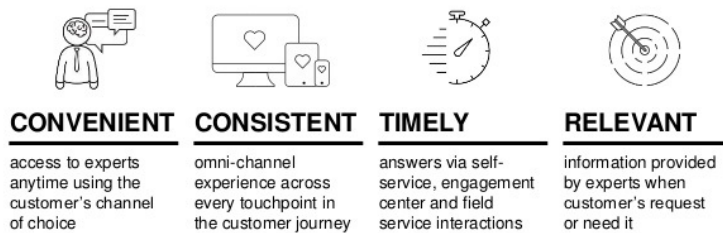
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ECR 1.0 stood for Efficient Consumer Response and it did help deliver efficiencies, but it failed on several deliverables. ECR 2.0 needs to stand for Effective Consumer Response. One word makes all the difference in our new world. “Effective” is being successful in producing a desired or intended result. Either way, this needs to be more than an initiative. It needs to be a movement.

**DELIVER END-TO-END SERVICE
EXCELLENCE, BUILD BRAND LOYALTY
AND INCREASE REVENUES**



Next Gen ECR

I'm excited lean in on ECR 2.0 because I believe we're standing at the nexus of something significant.

The industry is beset with new challenges that require short term outputs that add ongoing value, but our work can't be just about moving from state to federal labeling and/or packaging rights, product transparency, smart label, etc. As important as these things are, they don't address the greater business needs or continuously & sustainably advance the industry.

Many other questions can be answered from ECR 2.0 ongoing work. How is digital commerce going to affect things? What are the new rules of engagement between trading partners?

How do we engage the consumer in a meaningful manner with all the variables (product transparency, pricing promotion, etc.)? As much as ECR was designed for cost take out, it instituted processes which helped manage what we do on the ground (category management, trade promotion, etc.) more effectively.

Much of the architectural foundation, as well as the data ECR 2.0 will require, already exists. Our work requires we reflect on what ECR was trying to do and what it actually accomplished, then determine a new way forward.

We will envision what the consumer markets are going to look like. Question what retailers and manufacturers need to recognize in the wake of an increasingly connected consumer. Determine the actions required to optimize our supply chain, reinvent product formulation, track & trace, and promote sustainability, amongst others. We need to tease out where our industry is really going, and what it's going to take to not only survive, but also thrive.

Who, What, How

I've already presented the “why”, so now we need to address the Who, What and How. In my world, everything starts with Who. Who represents the human, people component of everything that gets produced and delivered.

There is already a great deal of work being done to stand up ECR 2.0, but it's being done in silos. The industry leaders need to coalesce to champion and help lead a collaborative output.

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We need an agnostically driven, omnibus, and objective POV about where we are and where we need to go. To do that, we need the best and the brightest to deeply commit and engage in the difficult, challenging, but ultimately rewarding dialog that will lead to the development of something that the industry can't refute.

If this work is going to realize its potential, it should do much more than merely provide insights. It needs to be a beacon for what's ahead. For the work to do that, it must include a broad spectrum of stakeholders – Consultancies', Technology Enablers', Retailers' and Manufacturers' perspectives and inputs.

There have been no defined principles the likes of which came out of ECR. Next Gen ECR will define new principles and help establish current standards for the industry.



In reality, this is a never-ending body of work deliver ongoing outputs including, but not limited to: a revitalized demand chain process; an optimized marketing, promotion, and merchandising competency recognizing today's connected consumer; digital asset management; frictionless commerce and other important areas to be prioritized, executed against, and delivered.

We must challenge some of the convictions our industry rests upon and is clearly hobbled by. The industry can't be afraid to make a move because it's too frightened to undo decades of work. We don't have a choice. The status quo is going be undone one way or the other. The real choice is whether we want to be the disruptors or the disrupted.

In the metaphorical blink of an eye, we won't recognize this industry. While many large CPG multi-national will outlast whatever's going and will survive, many others won't.

I'd welcome learning your interest and ideas around this body of work. Please email me at joehunt@huntgroup.com

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