B2B e Readiness
REPORT

Assessing Manufacturer/Retailer Capabilities

Grocery Manufacturers of America
Roland Berger Strategy Consultants

B2B E-Readiness Report:

Assessing Manufacturer-Retailer Capabilities

by Roland Berger Strategy Consultants

for the Grocery Manufacturers of America

GMA is the world's largest association of food, beverage and consumer product companies. With U.S. sales of more than $450 billion, GMA members employ more than 2.5 million workers in all 50 states. The organization applies legal, scientific and political expertise from its member companies to vital food, nutrition and public policy issues affecting the industry. Led by a board of 42 chief executive officers, GMA speaks for food and consumer product suppliers at the state, federal and international levels on legislative and regulatory issues. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer product industry.

Founded in 1967, Roland Berger Strategy Consultants has grown to become one of the leading global strategy consulting firms with annual revenues of $500 million. Following a management buyout from Deutsche Bank in 1998, which returned the firm to an independent partnership organization, the company has strengthened its leadership position and now has a worldwide network of 32 offices in 22 countries. Roland Berger offers its clients entrepreneurship, creativity and a pragmatic "down-to-earth" sense for successful implementation. The focus is on delivering creative strategies that work.

Table of Contents

Executive Summary iv

Acknowledgments xi

Chapter 1. Introduction 1

Chapter 2. E-Readiness: State of the Industry 7

Chapter 3. Key B2B E-Commerce Business Processes & Capabilities 17

Chapter 4. Timing of B2B E-Commerce Preparedness 25

Chapter 5. Harnessing Internet Exchanges 31

Chapter 6. E-Readiness: Joint Opportunities 43

Appendix: Study Methodology 51

Executive Summary

When business-to-business (B2B) e-commerce exploded on the consumer packaged goods (CPG) scene in early 2000, there was great hype and even greater expectations.

Today, many manufacturers and retailers in the $575 billion U.S. CPG industry express their disappointment in how long it takes to develop the necessary B2B capabilities and to reap the expected B2B e-commerce rewards.

Expectations of industry companies have been scaled back as early efforts in B2B e-commerce have stumbled. Despite these disappointments, however, most CPG manufacturers and retailers are committed to the idea of B2B e-commerce, and are getting ready for it.

Several months ago, GMA along with Roland Berger Strategy Consultants began an investigation of the status of B2B e-commerce capabilities and readiness in the CPG industry in the United States.

The study is based on extensive interviews with more than 200 executives and managers from manufacturers, retailers, wholesalers and brokers. Participants representing a large segment of the manufacturing channel and 65 percent of total sales of grocery products in the U.S. grocery/supermarket, convenience, mass merchandise (without Wal-Mart) and drug channels.

The number of participants make this the largest study of its kind to date.

The interviews with industry executives found that both manufacturers and retailers say they are committed to getting ready for B2B e-commerce, but issues such as collaboration, data synchronization, supplier capabilities, operational experience and Internet exchanges are creating challenges.

Even so, respondents contend, B2B e-commerce for the CPG industry is not a question of *if* but of *when.*

Forty-seven percent of retailers say they would use one or more B2B e-commerce application with a manufacturer within the next six months, although the majority of B2B e-commerce capabilities are still in the building or testing phase. Manufacturers are actually farther away from making e-commerce happen. The majority (78 percent) say they are still in the planning phase.

So when will the CPG industry begin operating in B2B e-commerce? Study analysts say that when large manufacturers and such big retailers as Wal-Mart, Kroger, Albertson's and Ahold start using B2B e-commerce, others will follow.

Trading Partners E-Readiness

In the future, the B2B capabilities and the e-readiness of trading partners will play a vital part in each company's B2B e-commerce success. A company will only be able to move as fast and as far as its trading partners are capable of moving.

Manufacturers e-readiness assessment: Manufacturer respondents say they have built or are in the process of building their internal capabilities to conduct B2B e-commerce with trading partners. Companies with annual revenues between $1 billion and $5 billion are the most e-ready, with larger companies (more than $5 billion) still facing some internal issues.

Companies participating in the study say that sell-side B2B e-commerce is identified as a top corporate priority. Only a few manufacturers, however, have actually developed a B2B e-commerce road map and defined it on a functional level.

Retailer e-readiness assessment: Study analysts found a small group of retailers that had built up their B2B capabilities and are moving quickly toward execution. The majority of retailers, however, are still in the planning and building stage.

With retailers, size matters in capabilities assessments. The largest grocery retailers — revenues of $20 billion or more — are more e-ready than the other segments. They are also more ready than all convenience stores, mass merchandise and drug chains responding.

The convenience store segment is the least ready for B2B e-commerce.

On the other hand, few retailers have operational experience with B2B e-commerce outside of electronic data interchange (EDI).

Trust, IT Capabilities Seen as Challenges

Manufacturer participants say trust continues to be a major issue for B2B e-commerce implementation. They also point out that one of the reasons for the limited communications of B2B e-commerce initiatives is the lack of clear, consistent but flexible B2B e-commerce strategies for their customer relationships.

Both manufacturers and retailers told study researchers that a lack of collaboration and the lack of trust between trading partners are barriers to B2B e-commerce.

IT capabilities are seen by most retailers as a major barrier to e-readiness, and few companies are *technically* ready for B2B e-commerce. Retailers also view linking different data repositories and working with a single updated database as one of the largest IT challenges they face.

Operational B2B experience is rated as one of the largest weaknesses in both manufacturer and retailer readiness. Study analysts say B2B e-commerce will not only require new know-how, but also a different mindset from executives and employees across all functions. They note that companies should work with trading partners to gain operational e-commerce experience and understand the implications on their internal business processes.

Top Priorities Vary by Industry Segment

Retailers are almost unanimous in their agreement that *item management* is the most important business process to be addressed by B2B e-commerce. Seventy-nine percent of retailers rank item management as their top priority in e-commerce capabilities. Closely following item management was forecasting replenishment, category management and promotion planning management.

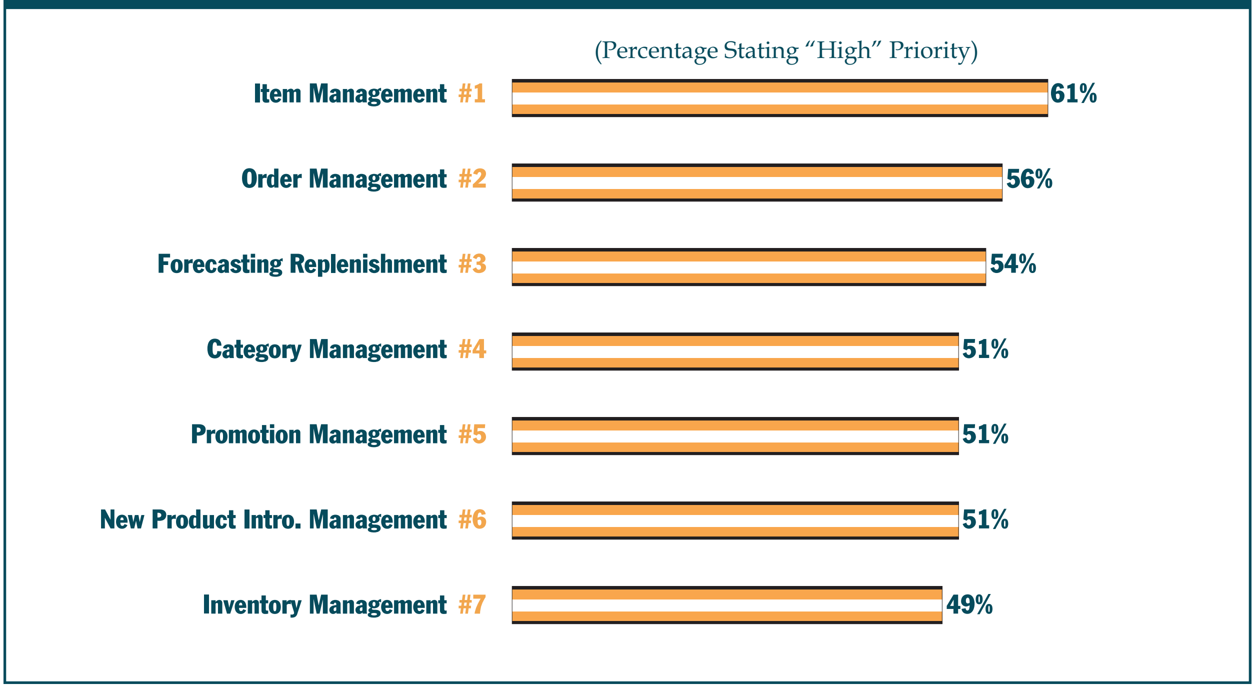
Manufacturers agree that *item management* is important in ranking B2B e-commerce capabilities, but only 61 percent gave it the No. 1 slot — well below the retailer level. Order management was high on manufacturers' priorities, with 56 percent. In third place with 54 percent of respondents is forecasting replenishment. Manufacturers are giving collaborative planning, forecasting and replenishment (CPFR) a great deal of attention, but so far few have pilot-tested the initiative.

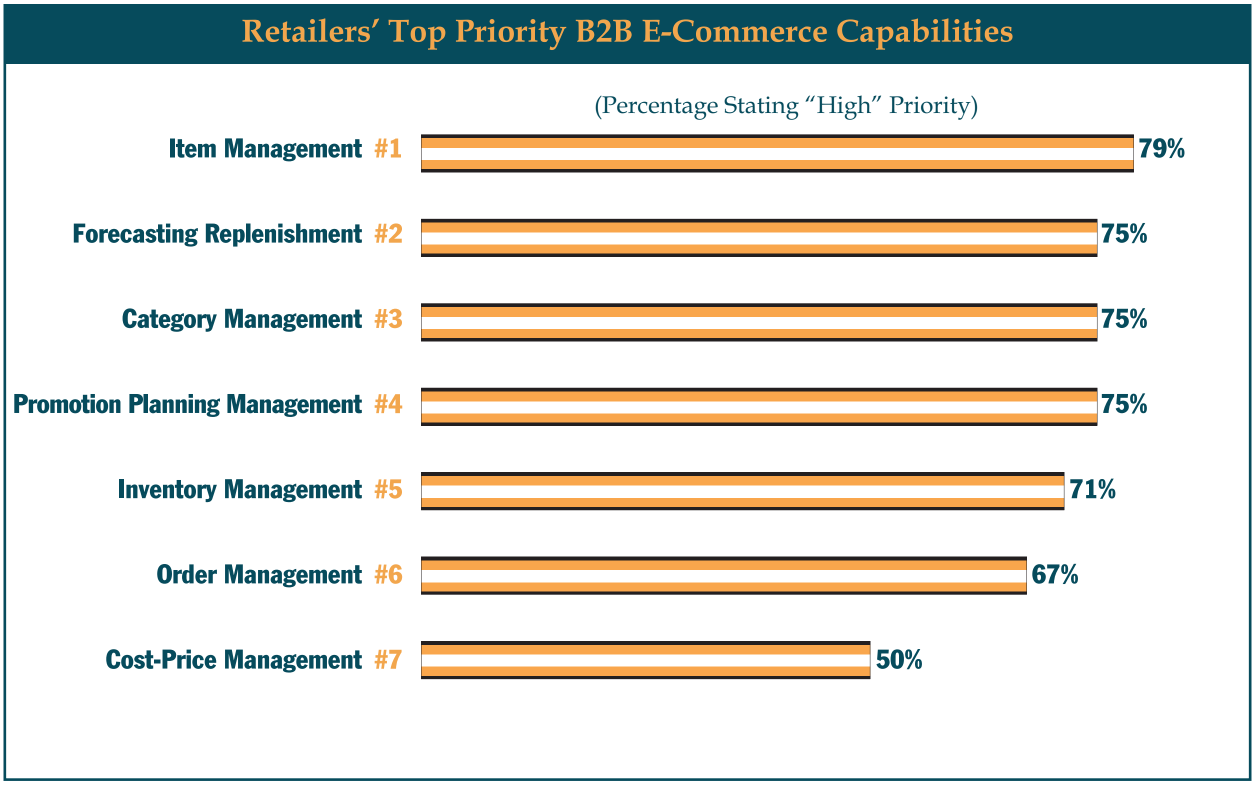
Joint Opportunities

While the study reveals that manufacturers and retailers are still unsure of how B2B e-commerce will work in the industry, most companies see numerous opportunities for B2B e-commerce applications in the following areas:

- Item/catalog maintenance as an avenue to simplify work and remove unnecessary discussion from trading partner meetings.
- Cost-price management as an easy B2B e-commerce application that could reduce invoice deductions.
- Order management as a means of transforming selling/purchasing systems.
- Forecasting replenishment as a solution that could be reserved for the largest retailers working with 30 to 50 of their largest suppliers.
- Category management as a potential B2B e-commerce application. This initiative, however, is seen by retailers as being one of the most difficult business processes for B2B e-commerce.

Manufacturers' Top Priority B2B E-Commerce Capabilities





Direct Store Delivery (DSD) Needs and Priorities

The study examined both warehouse-delivered and direct store delivered or DSD-delivered business models in each aspect of the research.

DSD manufacturers have different B2B e-commerce needs and priorities. For example, *backdoor check-in management* ranked as the top priority among these companies, with three-quarters of all DSD manufacturers ranking it as No. 1.

Surprisingly, *item management* is listed by 65 percent of DSD manufacturers compared with 89 percent of DSD retailers as an area for trading partner opportunity in synchronizing their product databases and improving backdoor check-in and payment management.

Forty-two percent of retailers in the study say they focus on DSD business processes as part of their top priorities for B2B e-commerce. As just mentioned, a whopping 89 percent of DSD retailers rank item management No. 1 in their list of top e-commerce priorities. Next came payment management (83 percent), new product introduction management (77 percent) and backdoor check-in management (77 percent).

Overall, the study found that DSD and warehouse-delivered business models had different levels of e-readiness. Manufacturers with a DSD delivery model are more ready for B2B e-commerce than warehouse-delivered models. DSD manufacturers identified B2B e-commerce as a top strategic priority and set financial budgets to build e-commerce capabilities.

DSD manufacturers also appear to be more advanced in the IT capabilities necessary for B2B e-commerce.

Readiness Assessment for Sales Agents & Wholesalers

For this study, several leading sales agents and wholesale distributors were interviewed to determine their B2B e-commerce readiness.

Survey results reveal that only a few sales agents and wholesalers are preparing for B2B e-commerce. The rest have not yet made a commitment. Leading sales agent and distributor companies, however, are implementing their own Internet portals and in-house exchanges to help smaller clients keep pace. Several sales agents in the study said they have their capabilities in place and are waiting for manufacturers to get ready.

While the demise of the sales agents was predicted by many industry pundits a few years ago, the reality today is that many manufacturers not only continue to involve sales agents in their go-to-market strategies but plan on continuing to do so in the near future.

The Hard Reality of Connectivity

Months ago, B2B Internet exchanges were hyped as a panacea for all business-to-business e-commerce. Consortia-led B2B Internet exchanges were quickly formed, and lofty promises were made.

Today, most companies interviewed say they are unsure about how to use the Internet exchanges. Many have spent considerable time and funds implementing proprietary data exchange and process automation systems, and they are unlikely to abandon these investments in the short term. And, since Internet B2B e-commerce will complement rather than replace these systems, almost all executives interviewed said they will use public B2B Internet exchanges to connect one or more business processes.

In fact, 68 percent of manufacturers say they will use public B2B Internet exchanges. Although Transora is the primary manufacturers' exchange, 63 percent of companies say they would also consider using GlobalNetXchange (GNX) and WorldWideRetailExchange (WWRE) to connect to retailers.

Fewer manufacturers than retailers (34 percent vs. 58 percent) plan to use third-party Internet exchanges.

Most retailers (51 percent) in the study plan to connect electronically with manufacturers through the public B2Bs and through one-to-one solutions. More than 40 percent of retailers interviewed say they would use GNX and WWRE to connect with trading partners.

Given the numbers of private, public, horizontal and vertical exchanges in the marketplace today, study findings note that a single point of connectivity may be difficult. Respondents say the complexity of establishing connections with every trading partner or exchange — in addition to functioning on multiple collaborative commerce platforms — will be difficult without interoperability. They also note that if interoperability cannot be solved quickly, it could become a time-consuming and costly barrier to successful deployment of B2B e-commerce.

Survey findings make note of the fact that the real challenge is to transparently link data and processes throughout the business community regardless of technology and of systems.

Getting Ready for B2B E-Commerce

How can a company prepare for B2B e-commerce today?

Findings from the study suggest some useful steps in devising a company's B2B e-Commerce strategies, including:

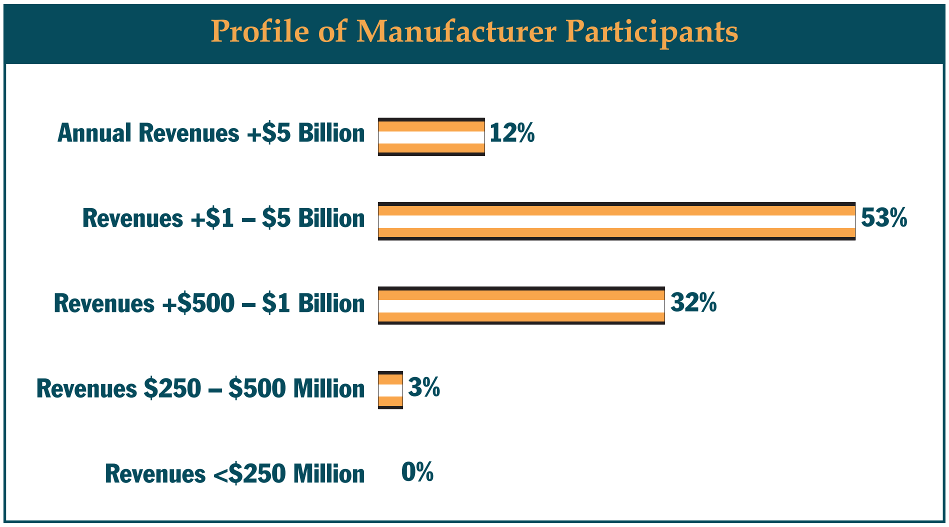
- Align the basic goals and performance measures with your trading partner(s).
- Focus first on fundamental business processes, which will create a foundation for the rest of the program.
- Understand how data and money are processed and clean up master file databases to enable data synchronization.
- Set up appropriate connections on the Internet for key business processes that will enable communication and data-sharing with trading partners.
- Get involved with B2B e-commerce, especially its most critical barrier — people. Foster a new mind-set among company employees at all levels of the organization.
- Mobilize the organization to move on B2B e-commerce.

Overview of the E-Readiness Study

The e-readiness study sparked an overwhelming interest among U.S. manufacturers and retailers. Forty-six manufacturers participated in the B2B readiness assessments. These companies ranged in size from large multinationals to smaller producers with a focused portfolio of retail customers.

Profile of Retailer Participants

*Annual Revenues



Forty-two retailers from grocery, drug, mass merchandising and convenience channels also participated in the research. These retailers represented 65 percent of the total sale of grocery products in the U.S. in the various channels.

Interviews were conducted with top executives at the participating companies. To make the report as thorough as possible, however, interviews were conducted "in the trenches" also with IT managers and category managers. Some virtual assessments were done online with manufacturers also.

The state of the industry presented in this study begins with an assessment of industry readiness for B2B e-commerce. Next comes an in-depth analysis of the top priorities for B2B e-commerce from the perspective of both manufacturers and retailers. The section addressing the critical question of *when* is addressed in the following section. How companies plan to use B2B exchanges is detailed, along with the joint opportunities for trading partners who must address the important question: How will it work?

GMA notes that the study could not have been completed without the months of work by Roland Berger Strategy Consultants and without the support of the GMA member companies and associate member companies that sponsored this research. (Please see a list of sponsoring companies on page xi.)

Acknowledgments

GMA wishes to thank the 42 retail companies and the 46 manufacturers that participated in this e-readiness study. Appreciation also is expressed to the more than 200 executives from manufacturer, broker, wholesale, retail and other organizations who were involved in this study.

A huge thanks goes to the group of companies who supported this report and the research behind it. These sponsoring companies include Anheuser-Busch, Inc., Coca-Cola Enterprises, The Earthgrains Company (now part of Sara Lee Bakery Group), Mars, Inc., Miller Brewing Company, PepsiCo, The Quaker Company, SAP America, Sara Lee Corporation and Seagram's Wine & Spirits Company.

Special thanks go to Roland Berger Strategy Consultants for the preparation of this report.

Chapter 1

INTRODUCTION

Purpose of Readiness Study

The last two years have been interesting times for food and consumer packaged goods (CPG) executives attempting to manage their way successfully through the noise and confusion of the new economy. Both retailers and CPG manufacturers are wrestling with the issue of how best to create value using business-to-business (B2B) e-commerce. But they are doing so with a lack of reliable information and insight from their leaders and their peers.

For this reason, Grocery Manufacturers of America (GMA), a sponsor group of GMA members, and Roland Berger Strategy Consultants launched an in-depth study to investigate the e-readiness or B2B e-commerce capabilities of the CPG industry in the U.S.

The e-readiness study was conducted on a large scale, including interviews with 42 leading retailers and 46 manufacturers to assess:

- Retailers' and manufacturers' readiness for B2B e-commerce.
- Business processes most affected by B2B e-commerce.
- Priorities for Internet connectivity through public and/or private Internet exchanges.
- Joint opportunities for retailers and manufacturers in B2B e-commerce.

More than 200 executives and managers from retailer, wholesaler, sales agent and manufacturer organizations participated in the e-readiness study.

B2B Roadmap Objectives

One of the key issues facing CPG manufacturers and retailers today in the area of B2B e-commerce is *when*. If speed is the heart of B2B e-commerce, then timing is the pulse.

Most executives know that e-commerce will eventually bring significant productivity benefits and that — to its early adopters — e-commerce may bring competitive advantage. Few companies today know, however, what business processes will be affected first or the timeline for when retailers and manufacturers will be ready to work outside Electronic Data Interchange (EDI).

To help companies get their arms around the issues, the e-readiness study set out to address four critical questions on the industry's readiness for B2B e-commerce:

- In which business processes and capabilities must companies invest to enable B2B e-commerce with trading partners?
- When must companies have their B2B e-commerce capabilities ready?
- How must companies use Internet exchanges to connect with trading partners and for what business processes?
- Where are the largest joint opportunities in B2B e-commerce for manufacturers and retailers?

Research Approach

To address the critical questions, the e-readiness study focused on three specific parts of the B2B e-commerce equation: retailers, manufacturers and Internet exchanges.

Research Approach

Retailer E-Readiness Interviews

- Understand grocery, drug, and convenience retailers' readiness for B2B e-commerce with trading partners.
  - Strategic vision and priorities
  - Organizational alignment
  - Technical capabilities
  - Operational experience
- Determine timeline for when retailers will be ready for B2B e-commerce

Connectivity Evaluation

- Identify what B2B Internet exchanges will be used to connect business processes between enterprises
- Evaluate the value proposition and service offering of different consortium-led B2B Internet exchanges
  - WWRE
  - GNX
  - Transora
  - RMX

Manufacturer E-Readiness Assessment

- Assess CPG manufacturers' readiness for B2B e-Commerce with retailers
  - Trading partner commitment
  - Strategic vision and priorities
  - Organizational alignment
  - Technical capabilities
  - Internet connectivity
  - Operational experience
- Determine timeline for when manufacturers will be ready for B2B e-Commerce

More than 120 one-to-one interviews were conducted with executives and managers from 42 U.S. grocery, drug, mass merchandise and convenience retailers. In addition to interviews with executives and directors, interviews were also conducted with senior merchandising managers and category managers to assess the application of B2B e-commerce. This provided a sound reality check of the status of B2B e-commerce activities at ground level and when they are likely to be rolled out to the organization.

As part of the retailer interviews, each company was asked about its expectations for manufacturers to support B2B e-commerce activities. Also, using a Web-based assessment tool, the manufacturers evaluated their own capabilities in 19 different areas ranging from strategic vision and priorities for B2B e-commerce to Internet connectivity and operational experience. Each manufacturer also provided information about its priorities for joint business processes with retailers and its operational timelines. For more information about the manufacturer e-readiness assessment, please visit www.gmabrands.com/indaffairs/indbuzz/eread.cfm. (Please see the appendix for a profile of companies participating in the e-readiness study.)

Executives from leading U.S. consortium-led B2B Internet exchanges — GlobalNetXchange (GNX), RetailersMarketXchange (RMX), Transora, and the WorldWide Retail Exchange (WWRE) — were also interviewed as part of the study.

Joint Business Processes

The e-readiness study focuses on the business processes where the retailer and the manufacturer can collaborate more closely to eliminate historic problem points and generate value through efficiency gains and revenue growth.

Fifteen core business processes were selected for further analysis and evaluation of the impact of B2B e-commerce.

Business Processes

1 Marketing and Merchandising
- Category Management
- Promotion Planning
- Shelf-space Management
- Product Development
- New Product Introduction Mgmt.

2 Buying Goods
- Item Management
- Order Management
- Cost-Price Management (everyday)
- Payment Management
- DSD Payment Management

3 Logistics
- Collaborative Planning, Forecasting and Replenishment (CPFR)
- Transportation Management
- DSD Back-door Check-in Mgmt.

4 Distribution
- Inventory Management
- Unsaleables Management

These business processes that will be developed in the report include the following:

1. Marketing and Merchandising Business Processes

Category Management
This initiative that grew out of the ECR movement is a collaborative business process in which the retailer and the manufacturer develop consumer-focused category business plans and share consumer, market, retailer and supply chain performance data. A full-blown category review requires 200-400 man hours to complete, forcing many companies to focus on tactical category management such as assortment management.

Promotion Planning Management
Companies have put in place a collaborative process for selection of specific products to be promoted. The process also includes negotiation of the agreement, approval, execution and evaluation of the promotions. Today, promotion planning is mainly a manual paper-based process for determining promotional calendars and forecasting promotional lifts. For most retailers, a simple task such as rescheduling a promotion requires several duplicate processes to keep in-store, warehouse and finance systems in sync.

Shelf-space Management
This is a collaborative process for the retailer and the manufacturer to develop effective visual merchandising plans (planograms) and optimize the use of shelf space in-store.

Product Development Management
This activity includes workflow tracking, design development from product packaging and labels to case configurations, approval procedures, visual document management and communication.

New Product Introduction Management
The primary goal of new product introduction management is to reduce the number of failures of, and the cost associated with, product introductions. The process includes the selection of specific products to be introduced, introduction planning, and event execution and measurement of the results.

2. Business Processes for Buying/Selling

Item Management
This transaction-based process supports both the retailer and the manufacturer in updating and maintaining their data master files and ensures that all product information is compliant with industry standards. It includes product registry, item information maintenance and product authorization and deletions.

Cost-Price Management
Once product assortment is decided, the retailer and the manufacturer can align their product information systems and cost-price information. Promotional allowances can be agreed upon between trading partners to avoid invoice discrepancies and deductions.

Order Management
Order management is fast becoming a critical transaction-based process. It consists of three specific activities — order entry, order processing and order forwarding. The goal of the order management process is the "perfect order," defined as accurate orders delivered complete and on time with a correct invoice.

Payment Management
The goal of the payment management process: to quickly, easily and without risk process payments and receipts, ensuring that the proper accounts are credited or debited. It also tracks pending and completed payments. In the last few years, companies have started to use electronic funds transfer (EFT) to make and receive payment obligations easily via the Internet while tracking pending and completed payments online.

Direct Store Development (DSD) Payment Management
Historically, DSD suppliers have been paid upon receipt of merchandise in-store or by invoices transmitted to the retailer’s accounting department for payment. In the last four years, retailers and DSD manufacturers have moved on to scan-based trading or pay-on-scan. Scan-based trading incorporates daily point-of-sale data to pay for products via EFT. This includes an electronic remittance advice showing the stores and dates to which any given EFT will apply.

3. Logistics

Forecasting Replenishment

The retailer and manufacturer currently do forecasting replenishment through an aggregate approach on an individual basis. This includes individual forecasts for sales and orders. During the final years of the ECR movement of the 1990s, retailers and manufacturers began to collaborate on forecasting replenishment in the form of collaborative planning, forecasting and replenishment (CPFR).

Transportation Management

This is the collaborative business process from manufacturer/distributor to retailer to transform orders into shipments, determining the mode/carrier, scheduling, shipping, tracking and payment.

DSD Backdoor Check-in Management

The counting process in a store's backroom by which the supplier's delivery person and the store's receiver mutually verify the quantity of product by SKU that is being purchased/ received by the store at that delivery. In some cases, this includes a store-level data interchange (DEX) that allows direct data transfer from the manufacturer's delivery agent's hand-held computer to the store's system, where the information is downloaded and a delivery ticket is transmitted to the retailer's accounting department.

4. Distribution

Inventory Management

This collaborative-based process plans, directs and controls inventory in the stock holding facilities. Vendor-managed inventory uses distribution center-level sales data to create forecasts that are used to optimize order quantities and maintain an agreed level of inventory. The continuous replenishment process uses point-of-sale data to generate sales forecasts and is managed by the vendor.

Unsaleables Management

The level of unsaleable products has been rising steadily over the last decade. To combat this increase, retailers and manufacturers have put in place a business process for handling products that are destroyed, returned, donated, or placed with salvage operations. The process also includes unsaleable reimbursement procedures.

Chapter 2

E-READINESS: STATE OF THE INDUSTRY

When the Hype Settles, Reality Begins

With increasing frequency over the past few years, new practices and new technologies trigger great change and new directions in the CPG industry.

When business-to-business e-commerce exploded on the scene early in 2000, there was great hype and even greater expectations. When financial results did not seem to materialize after the first 12 months, hopes and expectations faded. Today, most retailers and manufacturers that have been actively involved in B2B e-commerce agree that it will take much longer than initially anticipated to develop the necessary B2B capabilities and reap the expected B2B rewards.

Some companies joined a consortium-led B2B Internet exchange thinking it would prepare them for B2B e-commerce. This, they thought, was the only solution they needed to integrate customers and partners and to institute a company e-strategy.

In reality, the public B2B Internet exchanges cannot and should not support all joint business processes between enterprises. For those processes that drive and preserve competitive advantage, there are alternative options, such as private Internet exchanges. Even more important is the necessity to maintain — indeed, even build upon — “old fashioned” approaches, such as strong one-to-one relationships, especially with big customers. This need, however, does not reduce the need for companies to take advantage of B2B Internet exchanges when and where they make sense in their own operations.

Many of today’s special industry challenges in the retail value chain were identified by the Efficient Consumer Response (ECR) initiative in the book that launched that movement in January of 1993. However, the technology was not available to efficiently eliminate them. The Internet that burst on the scene later in the decade does provide a cost-efficient way of addressing these issues, but it will still take time before they all can be solved.

As Craig D. Schnuck, chairman and CEO of Schnuck’s Markets, Inc., said “It took us 25 years to get this messed up. To think that we’re going to solve it in a day is naive.”

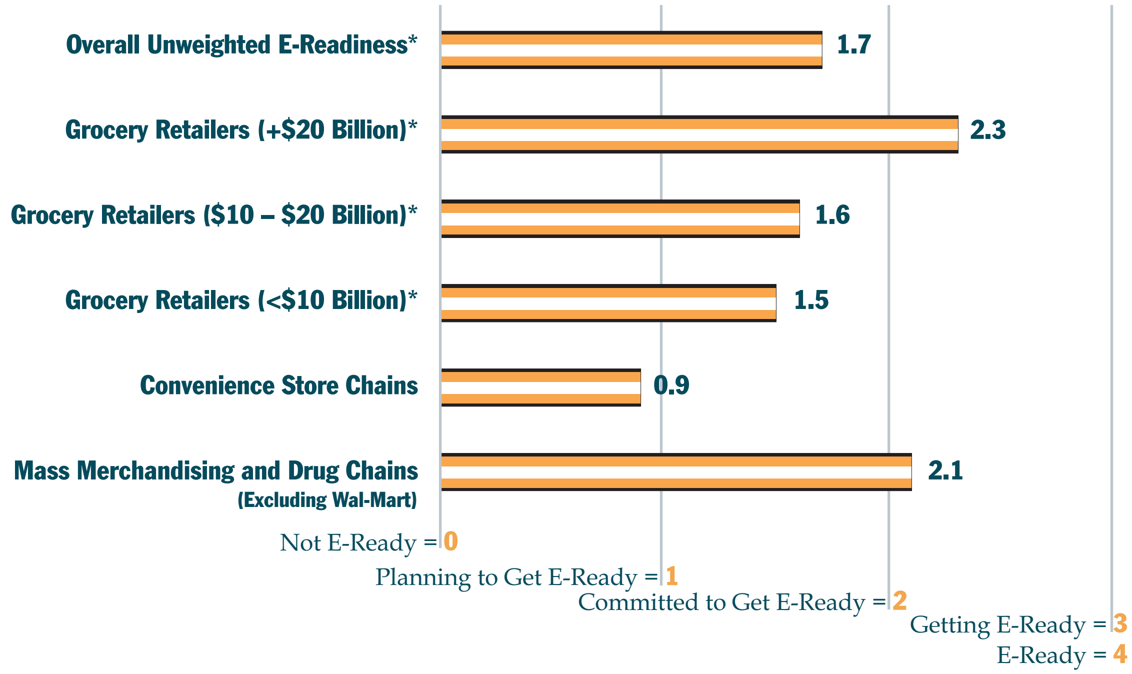
This e-readiness study found that most retailers and manufacturers are committed to getting ready for B2B e-commerce with their trading partners. However, there is still ample room for improvements.

Retailer E-Readiness Assessment

The survey indicates that U.S. retailers are committed to getting ready for B2B e-commerce with their trading partners. A small group of retailers have been building up their B2B capabilities and are quickly moving toward execution. The majority of retailers, however, are still in the planning and building phase.

Size does matter in B2B e-commerce when it comes to building capabilities, although the correlation between the e-readiness level and company revenues is not strong.

E-Readiness by Retailer Segments



*Annual Revenues

Overall companies with annual revenues in excess of $20 billion are more ready for B2B e-commerce than grocery retailers with revenues below $20 billion and of all convenience store chains responding, although several companies in the $10 to $20 billion category are equally ready for B2B e-commerce. Mass merchandiser and drug chains are rapidly preparing themselves for B2B with vendors. If Wal-Mart stores had been included in this latter grouping, this would have been the most e-ready segment.

The convenience store channel is less e-ready than the other channels. B2B e-commerce is not seen as a top priority in the convenience segment of the industry, which is still highly fragmented with the top 10 companies representing less than 30 percent of stores. Some convenience retailers, however, are committed to preparing for B2B e-commerce, hoping to use it for competitive advantage.

In general, retailers are optimistic about the B2B potential with manufacturers, but involvement is fragmented within their organizations. B2B e-commerce is seen as an important part of the retailers' corporate strategy, but few have explicitly defined that strategy let alone communicated it. Sixty-nine percent of all category managers rate B2B e-commerce as very or extremely important to their company.

In many cases, senior executives are involved in setting the strategic direction for B2B e-commerce and allocating adequate financial resources to build B2B capabilities. Several retailers also have set up B2B committees or teams, comprised of key officers and executives from the company. The task of these groups is to evaluate and agree on B2B e-commerce initiatives and investments.

Most retailers have designated an e-business manager to coordinate the activities with a cross-functional team. In general retailers that are managing their B2B e-commerce activities out of a business function (such as logistics or merchandising vs. a support function such as IT or strategy development) have a higher e-readiness level. It appears that there is a higher acceptance level when the business functions are "pulling" the B2B e-commerce initiatives as opposed to IT "pushing" them.

IT capabilities are still seen by most retailers as a major barrier to B2B e-commerce, and few companies today are technically ready for B2B e-commerce. Most retailers, however, are committed to upgrading back-end systems and setting up appropriate connections to communicate and share data using industry-defined standards.

Linking different data repositories and working with one updated product database are the largest IT challenges for the retailers participating in the e-readiness study. All retailers stated they support the use of industry standards for data structure such as the Global Trade Item Number (GTIN). Only a few have implemented these industry data standards. Several retailers said they were in the process of pilot testing an integrated local Intranet and Internet communication network. However, few had a fully operational solution available.

It is no surprise that only a few retailers today have operational experience with B2B e-commerce outside EDI. Almost all the retailers participating in the e-readiness study said they had tried e-procurement and reverse auctions. Several were in the process of rolling out an e-procurement process — one which made it an integrated part of the way buyers work. And, nearly two-thirds of senior merchandising managers and one-third of category managers said they are involved in their company's B2B e-commerce projects

Retailers' Requirements for Supplier E-Readiness

As part of the interviews, retailers were asked about their requirements for suppliers to support B2B e-commerce activities. Senior merchandising executives and category managers especially were invited to explain how they would select vendors for B2B e-commerce pilots.

Most retailers mentioned six areas among a variety of others where they expected suppliers to be e-ready. Category manager responses in this section may seem low because the general questions were open-ended and the responses were fragmented.

Of course, each retailer puts different emphasis on these factors when selecting trading partners to work with for B2B e-commerce pilots.

1. **Trading Partner Commitment and Willingness to Collaborate**
   Retailers openly admit that relationships with key manufacturers are less than optimal. They cite far too little sharing of information and said that many vendors keep their B2B e-commerce information to themselves. Although some vendors have begun to be more open about their e-commerce activities and to engage the retailers, retailers contend that, if B2B e-commerce is to happen, manufacturers have to show real commitment to collaboration and visibility. Thirty-three percent of category managers mentioned good relationships and common goals as the most important reasons for selecting a manufacturer for B2B e-commerce pilots.

2. **Vision, Strategic Objectives and Priorities for B2B E-Commerce**
   Retailers that had talked with manufacturers about B2B e-commerce often were unclear about how they are going to share the values/benefits of e-commerce. Retailers want to work with companies that have a vision for e-commerce, would be proactive, and would share benefits. Seventeen percent of category managers mentioned that they wanted to work with manufacturers that were proactive, had a vision and would deliver measurable benefits.

3. **Dedicated Organizational Resources**
   B2B e-commerce is in its infancy and any pilot project requires strong management skills and leadership from the manufacturer's side. Coordinating changes in business processes involves sophisticated planning on both sides. Sixteen percent of category managers volunteered that they would work with large companies with resources devoted to B2B e-commerce. An additional 5 percent stated they would chose a vendor based on the quality of the team leader/project manager.

4. **Technical Capabilities, Accessible Item Catalogs and Data Synchronization Capabilities**
   Internet technologies require significant system and business process work within the manufacturer's organization and could be a dilemma for existing, high-performance systems. Some retailers believe that manufacturers are focusing their resources on traditional EDI-type batch systems, which they believe only serve to slow down the development of B2B technologies. Fourteen percent of category managers mentioned they would work with vendors that had the necessary technical expertise and breath of IT services.

5. **Open-system/Interoperable Development and Internet-based Communication Capability**
   Interoperability between systems is important to many retailers. They said they would prefer to work with manufacturers that used similar systems or Internet exchanges. Ten percent of category managers volunteered that they would work with vendors that were part of the same Internet community as their company.

6. **Operational B2B E-Commerce Experience and Capabilities**
   As retailers in some cases did not have the operational experience with B2B e-commerce themselves, they were looking for manufacturers that could bring that expertise and capabilities to the table. Ten percent of category managers said they would select vendors based on their operational experience and past effectiveness with B2B e-commerce activities.

A Case Study: From A to Z E-Transformation

A&P plans to become one of the most advanced retailers in terms of B2B e-commerce. The 142-year old grocer — know officially as the Great Atlantic & Pacific Tea Company — is developing an entirely new business model with a strong B2B e-commerce focus. The company has realized that if it is going to be a player in a highly competitive industry, it has to leapfrog its competition and use the Internet to its advantage.

A three-year $250 million strategic project dubbed “Evergreen” is making significant strategic changes to the way A&P works internally and with its suppliers. It will ultimately replace nearly 95 percent of its current IT systems with Internet-based applications. A set of core Web-based applications will integrate merchandising, logistics and warehouse management, which, in turn, will drive demand forecasting, integrated purchasing, and replenishment with suppliers through the Internet.

CPFR will be a vital part of project “Evergreen,” enabling A&P to achieve world-class in-stock position and eliminate non-productive processes in the supply chain. The company will soon begin piloting CPFR with four or five suppliers. “We want to understand the benefits of CPFR to A&P and the suppliers, the technical requirements, and the long-term scalability,” says Nicholas Ioli, senior vice president and CIO of A&P.

A&P will also concentrate on making the transactional business processes more efficient, enabling its employees to focus on customer service instead of non-value-added administrative tasks. The retailing chain will accomplish its goal by building an e-commerce framework which will facilitate supplier self-service activities. These activities include foundational, transactional and collaborative business processes.

This framework will allow A&P to interact efficiently with suppliers regardless of the capabilities, whether the suppliers’ strategy includes consortia-led Internet exchanges, UCCnet, ECCnet or other extranets. “The supply chain efficiencies we expect to achieve through viaLink and UCCnet should also lead to reduced costs and help in fostering better relations with our suppliers,” says John Metzger, senior vice president of supply and logistics and “Evergreen” project leader.

A&P is part of the WorldWide Retail Exchange through its parent company, Tenglemann Group. The exchange is an integrated part of the company’s strategy for connection with manufacturers.

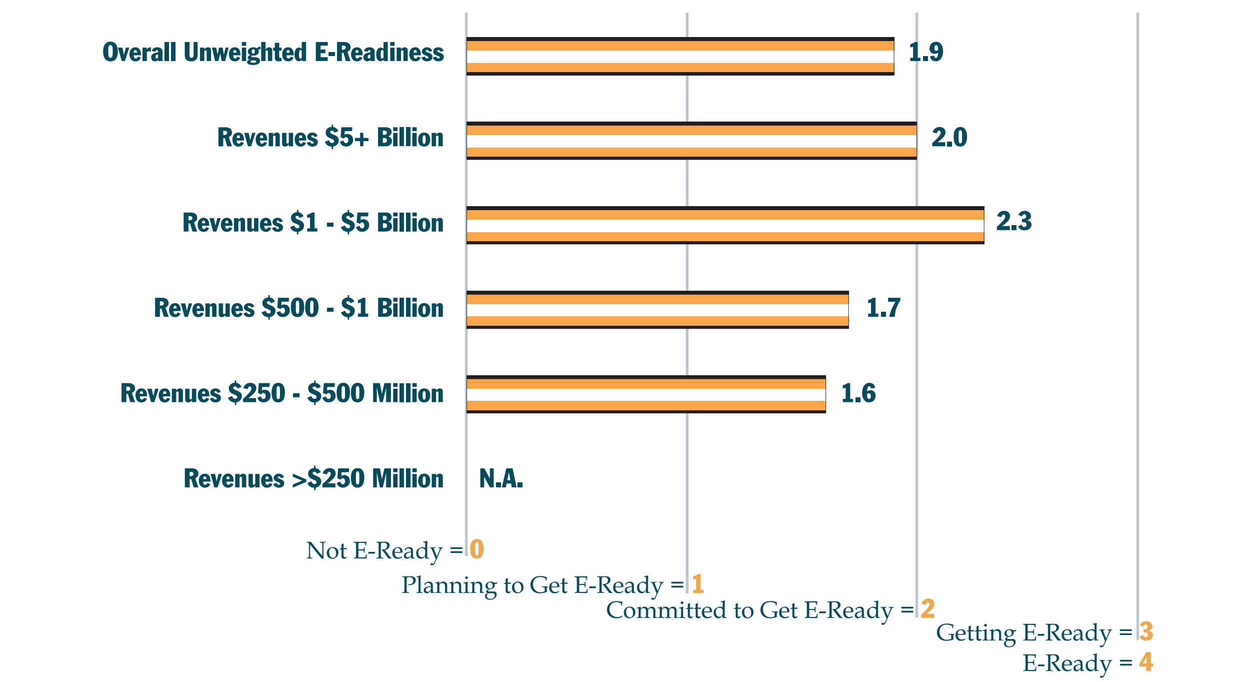
“B2B e-commerce will only be successful if we integrate all levels of suppliers — not only the large companies,” says Harrison Lewis, vice president of data management and e-commerce at A&P. “We will be looking to work with suppliers that are committed and willing to support A&P’s strategic goals, are developing the necessary technical capabilities, and are providing resources and commitment to make it happen,” adds Lewis.

At A&P, B2B e-commerce is not just another project. It is a new way of doing business.

Manufacturers E-Readiness Assessment

Manufacturers are also committed to getting ready for B2B e-commerce with retailers. Most manufacturers participating in the e-readiness study say they are clearly committed to B2B e-commerce with retailers and have built, or are in the process of building, their internal capabilities.

E-Readiness by Manufacturer Segments



Manufacturers with annual revenues between $1 billion and $5 billion are clearly the most e-ready segment. These are the companies that have been able to get their internal capabilities ready quickly and are proactively pursuing B2B e-commerce opportunities with retailers.

Companies with annual revenues exceeding $5 billion also are clearly committed to get ready for B2B e-commerce but were still facing some internal issues.

Surprisingly, manufacturers characterize their alignment with retailers' B2B e-commerce initiatives as limited. They are planning to develop objectives and performance criteria for B2B e-commerce in line with retailers' objectives, but only a few say they have aligned their initiatives with those of retailers.

Trust continues to be a major issue for the implementation of B2B e-commerce. Manufacturers say there is some level of trust with selected retailers, and top management is committed to working closely with these retailers on B2B e-commerce initiatives.

One of the reasons for the limited communication of B2B e-commerce initiatives is the lack of a clear, consistent but flexible B2B e-commerce strategy for their customer relationships. Most manufacturers say that sell-side B2B e-commerce is identified as a top corporate priority, and financial budgets are currently being allocated to build e-commerce capabilities. Only a few manufacturers, however, actually have developed a B2B e-commerce roadmap for implementation and defined it on a functional level.

Manufacturers that are part of a B2B Internet exchange say they are partly developing their capabilities in line with the exchange's service releases. Many manufacturers may not yet have defined their sell-side B2B e-commerce strategy and roadmap, but they have set up an e-commerce structure and are coordinating B2B e-commerce initiatives across their organizations.

Similar to retailers, manufacturers score low on the *technical* capabilities for B2B e-commerce. They currently are upgrading back-end systems and setting up appropriate connections to communicate and share data. Most manufacturers are still evaluating industry data and infrastructure standards to facilitate B2B e-commerce, but few have committed to a standard.

Outsourcing B2B e-commerce solutions to single-source vendors seems to be the preferred method for manufacturers to develop their technical capabilities. Forty-three percent of manufacturers participating in the research say they would use a single source vendor, and 34 percent claim they would develop the necessary IT capabilities in-house.

Most all the members of a consortium-led B2B Internet exchange note they have not yet used any of the exchange services. Therefore, manufacturers scored lower than retailers in operational experience with B2B e-commerce. Most manufacturers were planning to pilot tests with retailers, but few had the commitment from the retailers yet.

Different Delivery Models, Different Levels of Readiness

Company size is a factor influencing manufacturers' readiness for B2B e-commerce. The delivery model, whether it is warehouse-supplied or direct store delivery (DSD), also has a strong correlation with the manufacturer's level of e-readiness.

Manufacturer E-Readiness Comparison

Manufacturer with DSD Delivery Model

Note: Based on 22 manufacturer assessments.

Manufacturer with Warehouse Delivery Model

Note: Based on 24 manufacturer assessments.

The manufacturer assessment shows that manufacturers with a DSD delivery model are more ready for B2B e-commerce with retailers than manufacturers with a warehouse-delivery model (unweighted scores of 2.1 and 1.75, respectively).

DSD manufacturers scored significantly higher in terms of having a sell-side B2B e-commerce vision. They identified B2B e-commerce as a top strategic priority and allocated financial budgets to build e-commerce capabilities. Many of the DSD companies say they had defined a 12-18 month B2B e-commerce roadmap on a functional level.

Both DSD and warehouse-supplied manufacturers achieved high scores for organizational alignment resources and for having developed an e-commerce unit/team to integrate B2B e-commerce across the organization.

In the area of IT capabilities, DSD manufacturers are farther along that other manufacturers. Especially in the areas of linking different internal data repositories and developing new applications oriented to e-business, DSD suppliers achieve high marks. Both DSD and warehouse supplied manufacturers have limited operational experience with sell-side B2B e-commerce although several of the DSD companies point out they had conducted scan-based trading pilots.

Manufacturers: More E-Readiness than Retailers

Overall manufacturers participating in the e-readiness study appear more ready for B2B e-commerce than the retailers. The involvement of top senior management and the development of corporate priorities demonstrate that manufacturers are committed to getting ready for B2B e-commerce. Most companies are also dedicating significant internal resources to prepare the organization and to set up an e-commerce structure to drive B2B e-commerce initiatives.

To date, retailers have committed fewer internal resources than manufacturers but have more operational experience with B2B e-commerce. They use this experience to shape their future B2B e-commerce strategy. Manufacturers and retailers both have pilot tested several e-commerce applications such as data synchronization, scan-based trading, and CPFR.

E-Readiness Comparison

Retailer E-Readiness

Note: Based on interviews with 42 retailers/wholesalers

Manufacturer E-Readiness

Note: Based on 46 manufacturer assessments.

A Case Study: Pioneering B2B E-Commerce

Sara Lee Bakery Group (SLBG) which includes the Earthgrains Company is quickly becoming a highly respected pioneer of e-commerce in the consumer packaged goods industry. The approximately $3.4 billion fresh baked goods, refrigerated dough and frozen baked goods maker in St. Louis is disciplined in its technology spending and focuses its e-commerce activities on a few carefully selected initiatives.

This company is the nation's second-largest commercial packaged bread baker with more than sixty bakeries. It considers B2B e-commerce a top strategic priority.

CEO Barry H. Beracha is the chairman of the UCC Board of Governors and is actively involved in helping set global standards for supply chain management and e-commerce. His involvement ensures that his company is always well informed about new industry initiatives and involved when decisions are made that could affect the company.

In 1998, the then Earthgrains Company was one of the first consumer packaged goods companies to implement e-procurement. The Ariba system helped the baker replace manual, time-intensive purchasing processes and improve relationships with its suppliers. Early success encouraged the company to continue its B2B e-commerce activities.

The company initially focused its IT investments on upgrading backend systems and integrating internal data repositories. "Fundamental understanding of your business and of the processes needed to support your business is a prerequisite to the successful implementation of e-commerce technology," says Martha Uhlhorn, vice president of e-commerce and category management. "Unless you have an understanding of how data and money are processed in your organization, you will have a difficult time implementing new e-commerce data and dollar flows."

When Transora was launched in 2000, The Earthgrains Company was an original investor, choosing the public Internet exchange model to gain greater efficiencies in its business-to-business efforts.

Today, SLBG's sell-side B2B e-commerce strategy is centered on the implementation of scan-based trading for its DSD business. The company was one of 12 food and beverage companies to participate in a successful GMA pilot where it gained firsthand experience with a scan-based trading system as opposed to the EDI one-to-one solution it had been using. SLBG and its trading partners have successfully converted more than 2,200 stores to scan-based trading, saving 15 to 20 minutes per delivery by not having to check in.

As a B2B pioneer, SLBG has learned some valuable lessons. "In most cases, the technology portion of a B2B project is the easy part," Ms. Uhlhorn said. "Involving your organization in the change and getting them to adopt the new way of doing business are the most difficult parts." Although Transora is the primary B2B Internet exchange for the baker, the company is planning to connect with trading partners in various ways. Ms. Uhlhorn continues: "We would obviously prefer to use Transora to connect with our trading partners. However, we understand that some retailers will choose other methods for connecting with us."

Chapter 3

KEY B2B E-COMMERCE BUSINESS PROCESSES & CAPABILITIES

Focus on B2B Business Processes

The Efficient Consumer Response (ECR) movement was characterized by the emergence of new collaborative management principles to streamline and improve the food and consumer packaged goods value chain. It was understood that companies could serve consumers better, faster and at less cost by working together with trading partners. The 1993 document that launched the ECR initiative identified four critical areas to break down non-productive barriers and address efficiency in the industry:

- Efficient store assortment
- Efficient promotion
- Efficient new product introduction
- Efficient replenishment

Although companies have made considerable strides in improving business processes in those four areas since 1993, the industry still faces many of the same inefficiencies identified then. For example, the *1998 EDI Business Process Survey Results* published by ECR's Electronic Commerce Process Improvement Group noted that little progress had been made in applying electronic communications to ECR processes up to that point. The chief reason given was a lack of commitment by the majority of trading partners to simplify and clarify manual, paper-based processes.

At the heart of ECR was a business environment characterized by dramatic advances in information technology. However, the technology could not support the collaborative nature of many of the ECR initiatives, and many issues were left on the table.

Today, with the rapid advance of Internet technologies, many of these ECR issues can be addressed and the barriers broken down. The technology and terminology might have changed, but the business issues are still the same.

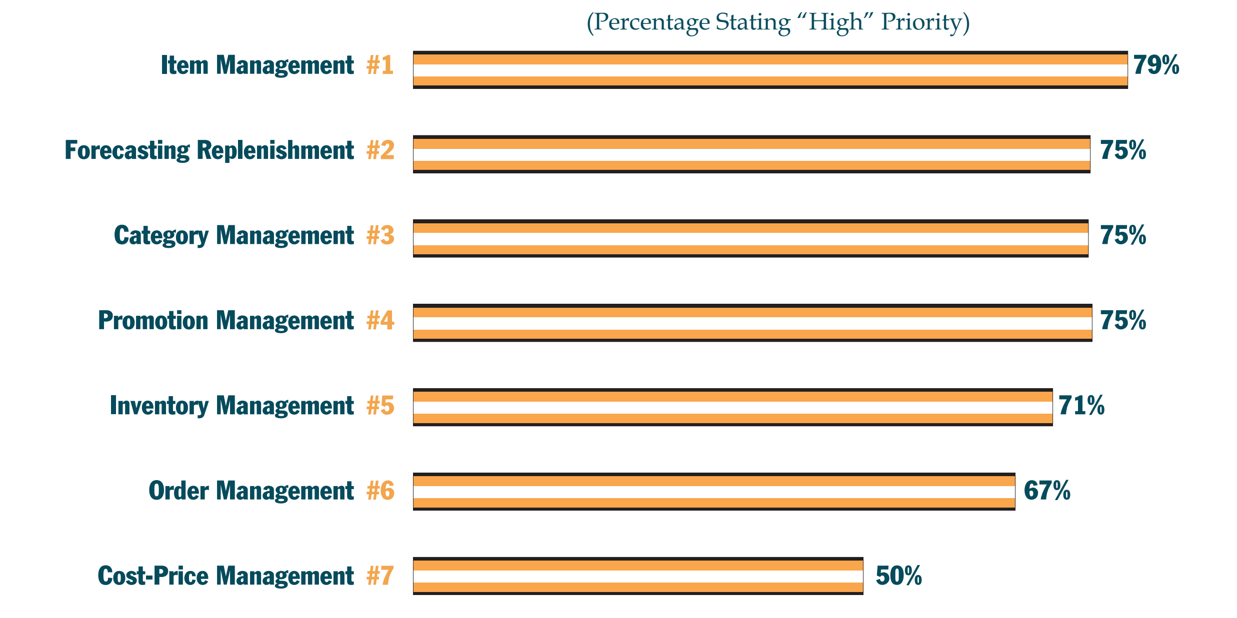
In the past, widespread adoption of the ECR processes also was hampered by the misaligned priorities among supply chain partners. The most common reasons cited for this non-alignment was the failure of trading partners to collaborate in the redesign of inconsistent and complex business processes. Today, therefore, to build the collaborative relationships necessary for B2B e-commerce, companies must understand the priorities of their trading partners. They must work together to serve consumers better, faster and at less cost.

To avoid the pitfalls identified during the EDI implementation at the height of the ECR years, the e-readiness study focuses on understanding what B2B business processes are top priorities for retailers and manufacturers in the area of B2B e-commerce. These processes include both warehouse and direct store delivery (DSD) methods of distribution.

Retailers Focus on Supply Chain Capabilities

Most retailers participating in the e-readiness study focus on developing their capabilities in the areas of the supply chain, followed closely by marketing and merchandising processes.

Retailers' Top Priority B2B E-Commerce Capabilities



There was an almost unanimous agreement among retailers that item management was the most important business process to be addressed by B2B e-commerce. Item synchronization is also seen as a critical first step for many collaborative B2B e-commerce initiatives.

Retailers deal with thousands of product updates — such as U.P.C. code changes, size of contents, number of products per case, case dimensions etc. — from hundreds of manufacturers. The manual process is slow and error-prone. A recent GMA study reports that some 30 percent of the information in retail systems is estimated to be wrong due to human error during manual processing or lack of data integrity.

As one senior retail executive expressed it: "Transforming your business model around B2B e-commerce is like building a house. You cannot decorate the living room before the foundation is in place."

Item management is not top-of-mind among senior merchandising managers but, when specifically asked, most said it was a high priority. Category managers also listed item management as a top B2B e-commerce capability required of manufacturers.

Closely following item management, retailers stated three collaborative business processes as top priorities: forecasting replenishment, category management and promotion planning management.

The industry excitement around collaborative planning, forecasting and replenishment (CPFR) has certainly increased awareness at all level of retailers' organizations. Three-quarters of the interviewed retailers list forecasting replenishment as a top priority for their B2B e-commerce activities. Many retailers recognize the importance of accurate forecasting by product and location. Among category managers, however, CPFR was ranked *behind* business processes — such as cost price management, order management and category management — in importance.

Category management is high on the priority list for most senior merchandising managers and category managers, and was also seen as a top priority by most IT executives. The ability to meet consumer demands better than the competition is clearly a competitive advantage for most retailers. However, category management today is largely a manual, paper-based process among retailers and manufacturers, eating up significant time and resources. Not surprisingly, many industry companies have limited themselves to "tactical" category management, such as space-and-assortment management optimized for velocity. Retailers rely on manufacturers to provide information on consumers, category trends, seasonal buying, new product introductions and exchange sales and market data. Different data sources often result in inconsistencies that are hard to manage. Easier and faster access to data would make category management much more efficient.

Promotion planning management has long been the Achilles heel of the CPG industry. Seventy-five percent of retailers say promotion planning management is a top priority and that they would use B2B e-commerce to coordinate activities with manufacturers more efficiently. For example, if a retailer changed a promotion date, the supplier would be automatically informed and delivery schedules and demand forecasts would be updated.

Seventy-one percent of retailers mentioned **inventory management** as a top priority. Today, both retailers and manufacturers are carrying high levels of inventory to avoid out-of-stocks. Inventory bears a high cost in terms of capital consumption and expenses. Vendor-managed inventory (VMI) and co-managed inventory (CMI) have achieved mixed success. Some retailers say they have achieved significant results. Others have not, primarily because of poor information, disconnected systems and the lack of collaboration. Sixty-six percent of senior merchandising managers and category managers mentioned inventory management as an application they would be most interested in using.

Improving the **order management** process was mentioned by 67 percent of all interviewed retailers as a top priority for B2B e-commerce. Too many orders today are not delivered in the correct way. Either the merchandise is not right, the quantity is wrong, or orders are delivered at the wrong place or time. Service level is an important performance measure for most retailers.

Senior merchandising managers and category managers especially mentioned the need to improve order management. EDI continues to be used as a primary communication method for order management. However, several retailers are experimenting with using the Internet infrastructure instead of private Value Added Networks (VAN) for EDI messages.

Everyday **cost-price management** is mentioned by half of the retailers participating in the e-readiness study as a top priority. All category managers agreed that too much time is spent on discussing deductions with manufacturers. They clearly identified invoice discrepancies as a major point of contention in the industry supply chain. A study sponsored by the GMA identified that chargebacks remains one of the industry's greatest challenges. A third of companies reported that chargebacks had increased over the last two years. The same held true for invoice deductions, with most companies indicating that these too had increased on the past two years.

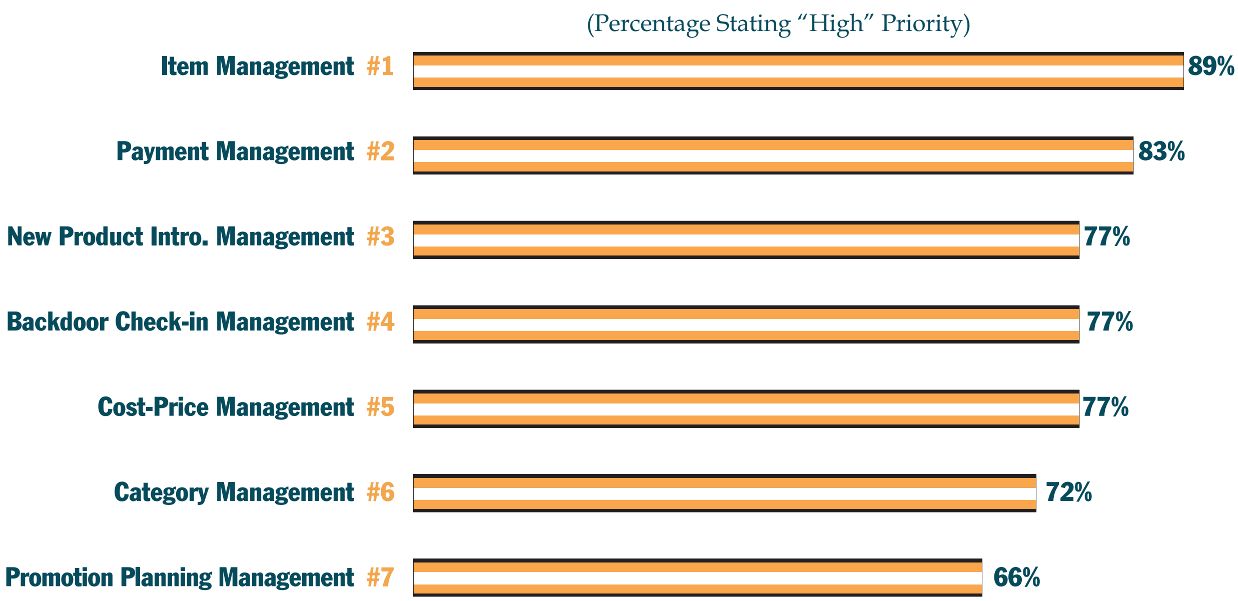
At the other end of the scale, 54 percent of retailers participating in the e-readiness study mentioned product development management as a *low* priority. Other business processes with a low priority were: unsaleables management (42 percent) and transportation management (33 percent).

Overall senior executives, B2B e-commerce managers and senior merchandising managers basically agreed on the top priorities for B2B e-commerce although some differences exist in the order of priority. Senior merchandising managers and category managers, however, rate new product introduction and payment management processes higher than IT managers, especially with regard to DSD.

Retailer Direct Store Delivery (DSD) Priorities

Forty-two percent of the retailers participating in the e-readiness study say they have identified DSD business processes as part of their top priorities for B2B e-commerce. Retailers with revenues below $10 billion and convenience store chains especially were focusing their B2B initiatives on improving business processes with DSD suppliers. Retailers with revenues exceeding $20 billion focused primarily on warehouse-driven business processes but mentioned that they are investigating opportunities to use B2B e-commerce with DSD suppliers.

Retailers' Top B2B E-Commerce Priority with DSD Suppliers



Note: Based on 18 retailers assessment.

The scan-based trading or pay-on-scan process is mentioned as a significant joint opportunity by all senior merchandising managers and category managers involved in DSD categories. However, scan-based trading consists of several sub-processes such as item and cost price management (synchronization), back-door check-in management and payment management.

Retailers see significant opportunities in streamlining the cumbersome process of checking DSD orders. They believe scan-based trading will focus suppliers' in-store work and make them jointly responsible for performance of the category. Category managers also realize, however, the difficulties in implementing scan-based trading in terms of new payment and shrink settlement terms.

Fleet optimization is listed as the main benefit of scan-based trading to DSD suppliers. Category managers note they were willing to share store forecast data with DSD suppliers to improve on-shelf availability, pointing out that this also allows manufacturers to verify costs in order to reduce invoice discrepancies. Retailers realize scan-based trading will become a reality only when sufficient stores have joined the initiative to create economies of scale for DSD suppliers.

Seventy-seven percent of retailers that said DSD is part of their B2B e-commerce activities also see new product introduction as a top priority — especially the creation of new items, authorization and de-authorization of products.

Category management and promotion planning management also were mentioned by two-thirds of retailers focusing on B2B e-commerce with DSD suppliers. Since many of the top DSD categories in a grocery store are high velocity, high impulse items, it is even more important for retailers to work closely with manufacturers to devise the best category business plans and promotional activities.

There is something of a disconnect between manufacturers and retailers in DSD. Although 42 percent of retailers say they have identified DSD business processes, the majority of retailers are investing their attention and resources in warehouse-supplied product categories.

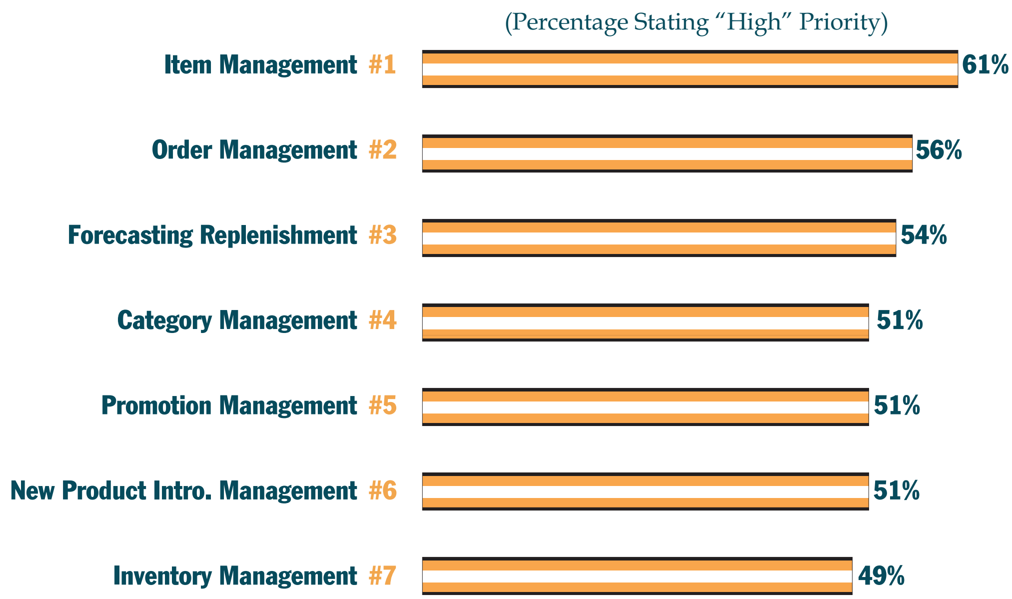
In contrast, manufacturers with DSD products are the most e-ready. As manufacturers seem keen to move ahead with DSD B2B e-commerce, this presents an area of joint opportunity for manufacturers willing to find interested retailers to partner.

Manufacturers Stand Less United on Priorities

While retailers are in broad agreement about their top B2B priorities, manufacturers are less united.

They are focusing on the same business processes as the retailers, but the order of importance is different and the number of companies agreeing is well below the retailer level. This is partially due to the differences in business models — warehouse-supplied vs. direct store delivery.

Manufacturers' Top Priority B2B E-Commerce Capabilities



Manufacturers agreed that **item management** is the top priority for their B2B e-commerce capabilities. However, with only 61 percent agreeing it was the No. 1 priority, the average is well below the 89 percent of retailers who gave it a high priority.

Order management appears high on the manufacturers' priority list, influenced, no doubt, by the pressure retailers have put on manufacturers in the last years to improve order accuracy and service levels. In third place, 54 percent of manufacturers agreed that **forecasting replenishment** is a top priority. Similar to the retailers, CPFR received a lot of attention from manufacturers, but few have pilot-tested the concept.

Category management and **promotion planning management** receive high scores among the manufacturers participating in the e-readiness study. Where more than 75 percent of retailers agreed it was a top priority, however, only half of the manufacturers list it at the top of their list.

Efficient **new product introduction** is an important business processes to most CPG manufacturers and was listed by 51 percent of the participants as a No. 1 issue. This is surprising, considering the high failure rate for new products in the consumer goods industry. Interestingly, introductions of new products is not listed among the top seven priorities among retailers.

Unexpectedly, fewer than half the manufacturers listed **inventory management** as a top B2B e-commerce priority. In recent years, manufacturers have gradually taken on more and more inventory as retailers have reduced their inventory requirements and increased their need for fast, frequent shipments. For DSD manufacturers, this has obviously been less of a problem.

Manufacturer Direct Store Delivery (DSD), Different Priorities

DSD involves delivery of goods directly to the retail store by outside suppliers. The DSD business model is different from a warehouse-based network as the manufacturers control the distribution directly into the stores. Therefore, DSD manufacturers have different B2B e-commerce needs and priorities. Top priority for these companies is **backdoor check-in management**. More than three-quarters of the DSD manufacturers cite this as their highest priority. This is similar to the retailers, where 78 percent of the companies listed streamlining of backdoor check-in procedures as a top priority.

Comparison of Manufacturers' Top Priorities

Note: Based on 14 manufacturer assessments.

Note: Based on 24 manufacturer assessments.

Surprisingly, **item management** is listed as a top priority by only 65 percent of DSD manufacturers compared with 89 percent of retailers. This points to an area of opportunity for DSD manufacturers to work with retailers on synchronizing their product databases and improving the backdoor check-in and payment management. Most manufacturers that list item management as a top priority also mention **cost-price management**. These two processes are seen as fundamental for data synchronization and the first level of scan-based trading.

While **DSD payment management** is listed high on the retailers' priority list, it was mentioned only by a third of the DSD manufacturers. Many DSD companies do not see pay-on-scan as the only option for streamlining the cumbersome backdoor check-in process. Alternative solutions — such as random checks of deliveries based on advanced shipment notices (ASNs) — also can prove efficient.

Forty-two percent of DSD manufacturers say **category management** and **promotion planning management** are top priorities for their B2B e-commerce efforts.

Chapter 4

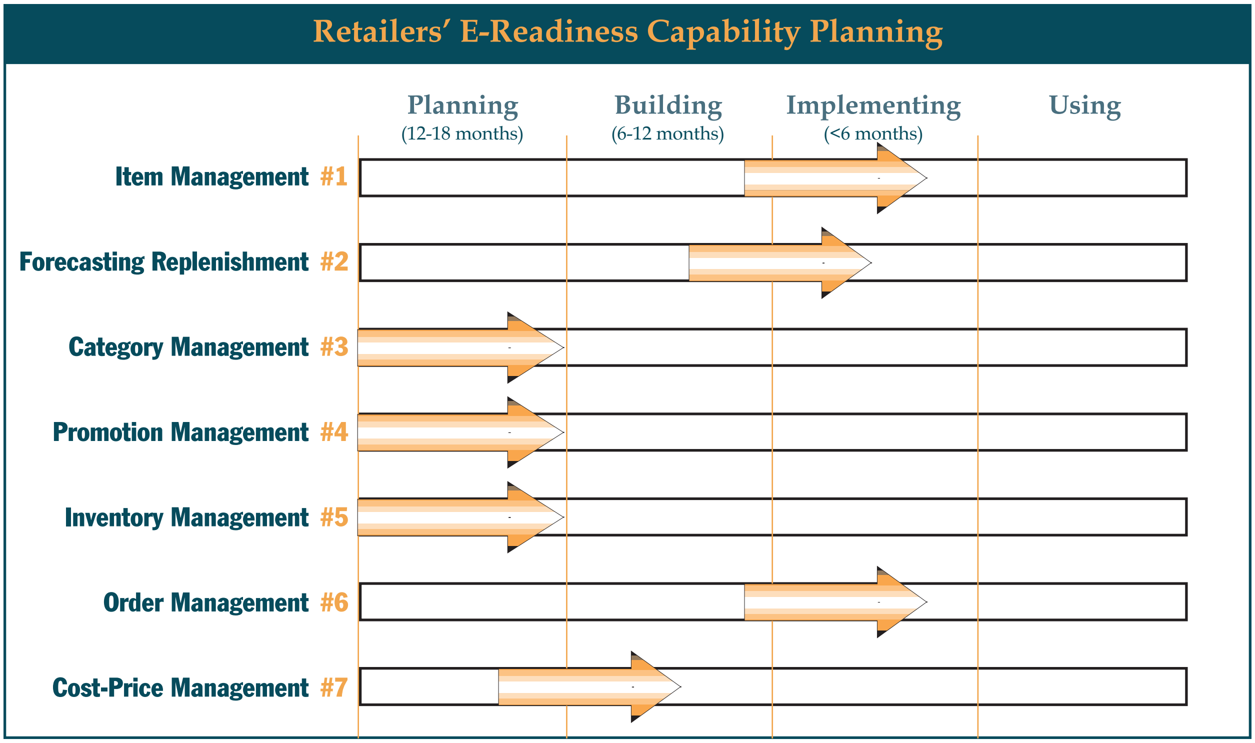
TIMING OF B2B E-COMMERCE PREPAREDNESS

Retailers First Out of the Starting Blocks

The technological bubble and the hyperpaced booming "new economy" are fading, as more austere economic times emerge. Today, speed in building B2B e-commerce capabilities can still bring productivity benefits and may bring competitive advantage to early adopters. However, many companies appear reluctant to make significant investments without the knowledge that their B2B e-commerce capabilities will be used. Therefore, the question of *when* becomes very important when CPG manufacturers and retailers plan their B2B e-commerce capabilities.

Forty-seven percent of the retailers participating in the study note they would use one or more B2B applications with manufacturer trading partners within the next six months. However, the majority are still in the building and trial phase and do not have the capabilities to use B2B e-commerce yet.

The most encouraging news is that retailers are planning to be ready to support transactional business processes — such as item management, cost price management and order management — within the next six to 12 months. These business processes will provide the foundation for efficient replenishment and are critical first steps for many of the collaborative B2B e-commerce initiatives to follow.



Once retailers can support the transactional business processes, they will move their focus to collaborative business processes, such as category management, promotion management and inventory management. The collaboration will take place when the retailer and the manufacturer share the responsibility of exchanging planning, management, execution and performance measurement information over the Internet. Most retailers say it will take another 12 to 18 months, if not longer, before they reach that state.

One exception is forecasting replenishment. Many retailers were in the pilot discussion phase for this capability at the time of the interviews. Retailers appeared to be eager to understand the benefits of CPFR to the entire retail value chain, especially how it could relate to their business.

At the moment, the current implementations of CPFR have been in pilots with limited numbers of SKUs and limited numbers of trading partners. Most of these pilots have focused on the forecasting part of CPFR, and few have been able to provide collaborative support for replenishment and deliveries. However, the next wave of pilot trials focuses on using Internet applications through B2B Internet exchanges or application service providers (ASP) and will integrate the entire forecasting/replenishment process on this initiative that grew out of the ECR movement.

E-readiness capability planning varies widely among individual retailers. Large grocery retailers and mass merchandise and drug chains are more advanced in building their B2B e-commerce capabilities than are grocery retailers with revenues less than $10 billion and all convenience store chains. However, several retailers with revenues between $10 and $20 billion are more advanced in building specific capabilities, such as item management or order management, than are large grocery retailers and mass merchandise and drug chains.

The roll out of B2B e-commerce capabilities also varies from category to category. Most retailers are focused on launching the new business processes in high-turn grocery categories, frozen food, health and beauty care products, and for certain processes in general merchandise.

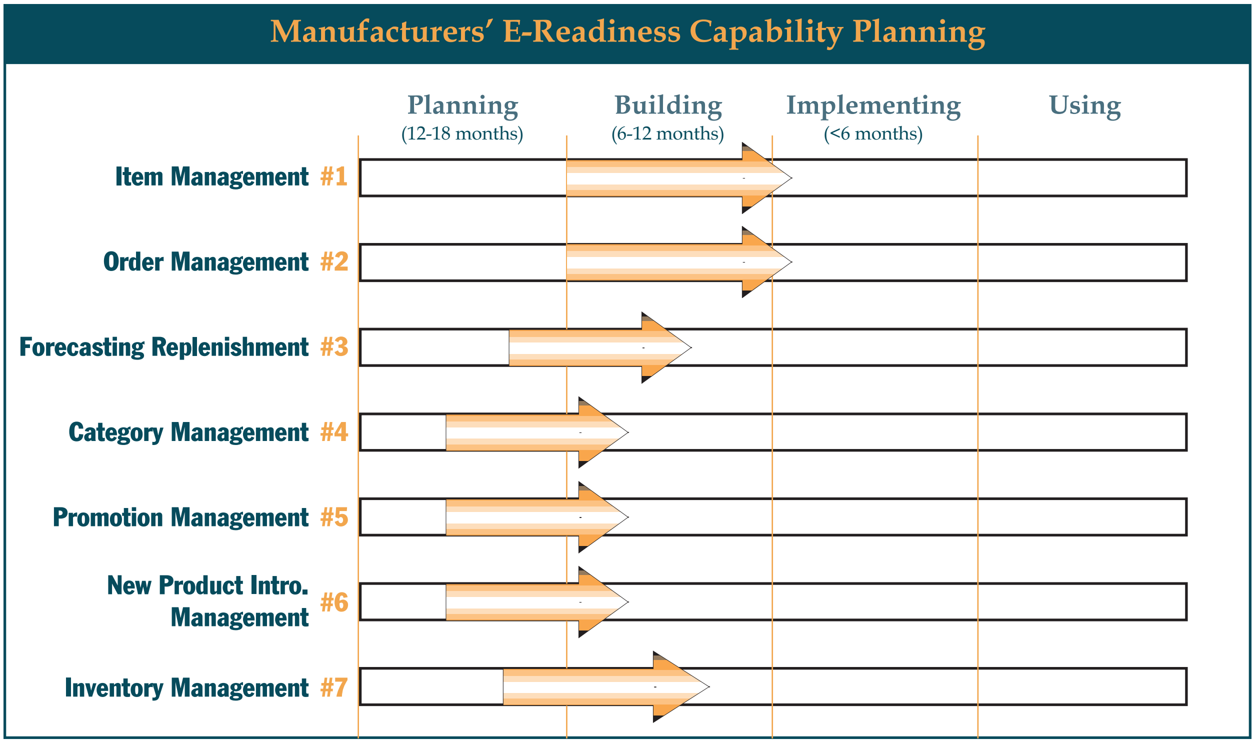
The capabilities needed to support DSD business processes (such as backdoor check-in management, payment management and cost price management) are — in most cases — in the *planning* and *building* phases. However, a few retailers say they would move rapidly to support scan-based trading with trading partners and streamline cumbersome backdoor check-in procedures.

Manufacturers Are Still in the Planning Phase

While almost half the retailers said they would be using one or more B2B e-commerce applications within the next six months, manufacturers are farther away from making e-commerce happen.

The majority (78 percent) of manufacturers participating in the e-readiness study say they are still in the *planning* phase. Several indicate they do not have any plans yet for high priority e-readiness business processes.

Similar to retailers, manufacturers focus on building their B2B e-commerce capabilities to support transactional business processes. Item management, order management and inventory management are furthest along in the planning phase.

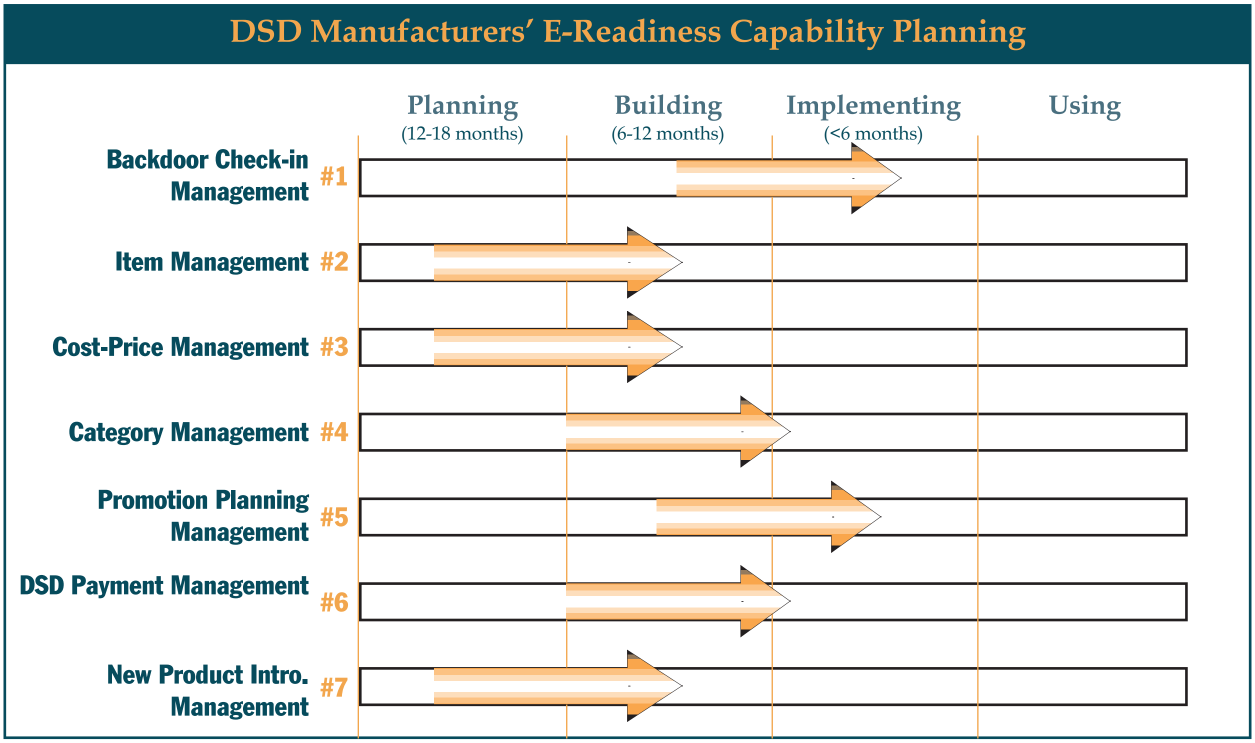


Some manufacturers, such as Kraft Foods and Ralston Purina, already have successfully completed item synchronization pilots through UCCnet. However, most manufacturers say they are still in the planning phase and would not be ready for in 12-18 months.

Collaborative business processes such as forecasting replenishment, category management, promotion management, and new product initiatives management are given a high priority by the manufacturers, but are still in the planning phase. It is estimated that it will take manufacturers more than 18-24 months before they will be ready to support these processes.

The e-readiness assessment shows that DSD manufacturers are further along in building their e-B2B e-commerce capabilities than individual warehouse-delivery manufacturers. These companies will soon be able to support backdoor check-in management with technologies, such as

Direct EXchange (DEX), a store-level data interchange that allows suppliers to transfer data directly from their delivery personnel to the store's computer.



The DSD manufacturers — who listed DSD payment management as a top B2B e-commerce priority — are at least 12-18 months away from having the capability to support payment management on a full scale. Item and cost-price management — other key components of scan-based trading — are even further away in the planning phase, which highlights DSD manufacturers' difficulties in supporting scan-based trading with a larger group of retailers at this time.

However, DSD manufacturers are farther along in planning their capabilities for promotion planning management and category management than warehouse-supplied companies. Some DSD manufacturers see these business processes as potential areas of competitive advantage.

Chapter 5

HARNESSING INTERNET EXCHANGES

A year ago, B2B Internet exchanges were seen as a panacea for all B2B e-commerce. Consortia-led B2B Internet exchanges were quickly formed, and some exchanges such as the WWRE had to close its membership rosters temporarily due to its high popularity.

Each of these exchanges was launched with the lofty objective of transforming the nature of business-to-business interactions between manufacturers, sales agents, wholesalers and retailers in the consumer packaged goods industry. While initial antitrust regulatory matters have been addressed, other issues remain prominent: Who will participate in these exchanges? And what business processes will the exchanges support?

This e-readiness study found that many retailers and manufacturers are still in a wait-and-see position on consortia-led Internet exchanges. Many that have joined will only conduct part of their B2B e-commerce activities through the public Internet exchange and will consider using private Internet exchanges and one-to-one applications as well.

What Will Happen to EDI?

Electronic Data Interchange (EDI) is not going to go away. Most executives who were interviewed as part of this research say that EDI will continue to be an industry workhorse in handling basic business transactions. However, it is more than likely that EDI will move to B2B Internet exchanges over time and use the Internet infrastructure instead of private Value Added Networks (VAN) or direct dial-up lines. On the Internet, EDI could work together with XML (eXtensible Markup Language) to maximize value throughout the supply chain as companies are extending beyond basic transactions by deploying more dynamic, interactive and real-time business processes.

As one senior retailer executive explained it: “We need to have a single route for connectivity … as opposed to having to maintain EDI VAN linkages and new XML linkages. EDI is not going to go away, but companies don’t want to say ‘Well, I send my EDI messages this way, and I send my XML messages that way.’”

Where EDI falls down is in the very document-based messages that allowed for quick response prior to the rise of the Internet. These messages do not allow for interactive search or collaboration, they are also less immediate than connecting online. Considering that business messages have to be created, transmitted, received and processed in order to go full cycle, EDI no longer corners the market on speed. The Internet technology for B2B e-commerce can combine product catalogs and support information, and then link directly into retailers’ and manufacturers’ procurement and ERP systems in real-time.

Use of Internet Connectivity in the Supply Chain

While most companies are clear about their top priorities and planning for B2B e-commerce, few retailers and manufacturers could provide an explicit connectivity strategy. Most were still trying to figure out how to use the Internet exchanges.

Many companies have spent significant time and money implementing proprietary data exchange and process automation systems and are unlikely to abandon these investments in the short-term. Wal-Mart, for example, does not participate in an Internet exchange in order to protect its current supply chain superiority through RetailLink™.

Today more than 100 B2B Internet exchanges provide services to the consumer packaged goods industry. Companies can chose among four different ways of connecting with their trading partners:

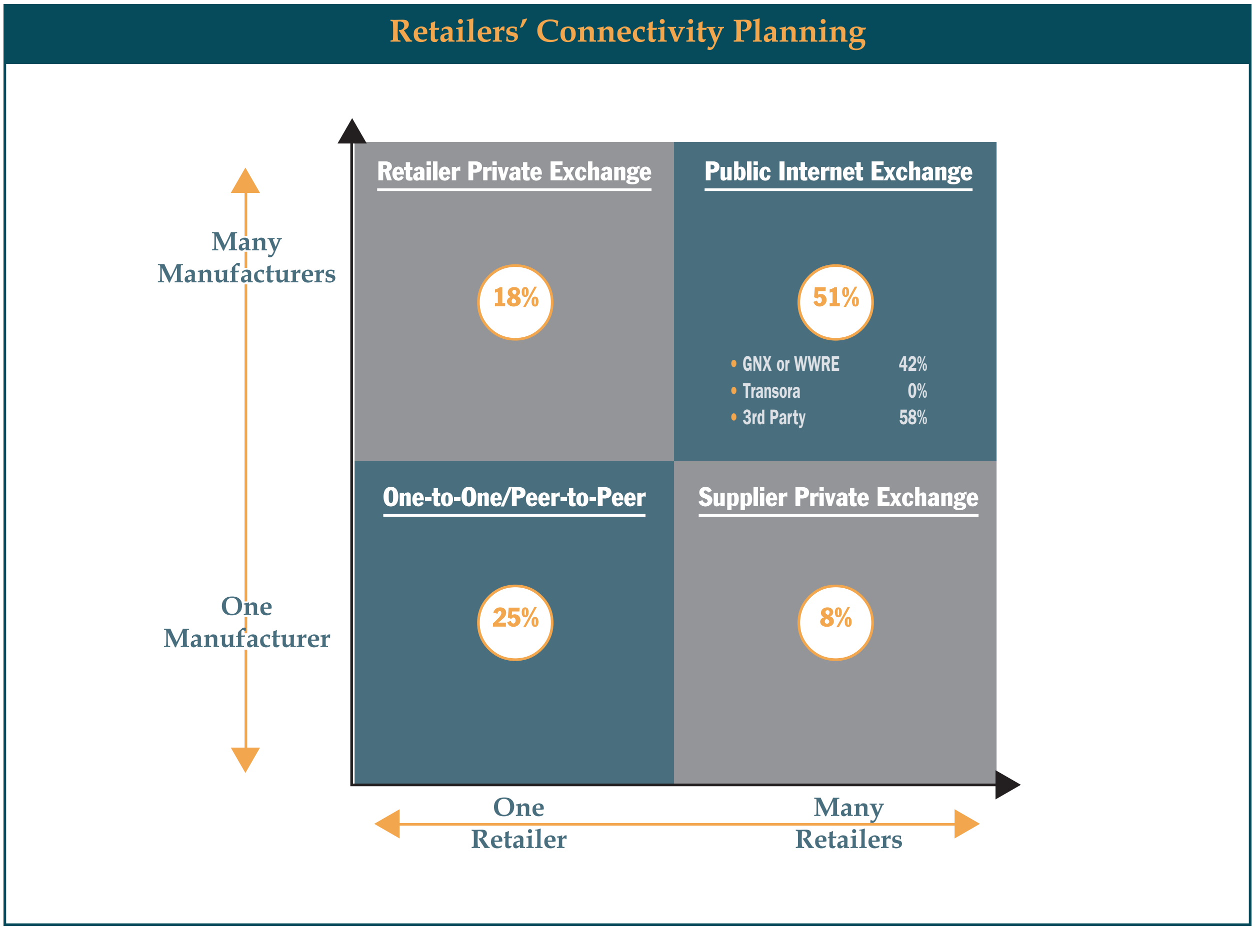
1. **One-to-One** — Most companies have experienced one-to-one connectivity through a private EDI VAN. One-to-one Internet connectivity allows companies to share an application solution that resides at the retailer or manufacturer. Peer-to-peer deployment sends electronic messages between the retailer's and manufacturer's IT systems to coordinate their activities.
2. **Many-to-One** — This is a retailer-led approach connecting many manufacturers to one retailer. By using Internet technology, retailers eliminate the need for developing costly proprietary systems for communicating with their trading partners. A retailer Internet exchange or extranet can handle trading, delivery logistics and collaboration, allowing suppliers access to their data and software applications.
3. **One-to-Many** — Several CPG manufacturers have also established their own private Internet exchange connecting many retailers to their IT systems, enhancing and improving their core competencies such as category management or supply chain planning. Companies either deploy an application solution on their extranet or chose a third party service provider to host the solution on its behalf.
4. **Many-to-Many** — Public Internet exchanges bring together many manufacturers and many retailers. They mediate business between trading partners through increased transparency of processes, real-time access to important information and cost-efficient connection to information in networked databases.

Retailers Prefer Consortia-led Exchanges

Today, most retailers (51 percent) in the e-readiness study plan to connect electronically with suppliers through the public B2B Internet exchanges and through one-to-one solutions.

GNX and the WWRE (For descriptions of major exchanges, see next section.) are the main B2B Internet exchanges for retailers with more than 40 percent of the companies stating they would use one of these exchanges to connect business processes with trading partners. Third-party Internet exchanges (such as UCCnet) will also be an important part of the retailers' connectivity strategy. However, it is very unlikely retailers will join multiple consortia-led Internet exchanges.

Private Internet exchanges are only considered by a quarter of the retailers as a way to connect with their manufacturer partners. Eight percent of the companies say they would use a supplier's private Internet exchange. Forty-eight percent of senior merchandising managers and category managers were aware of manufacturer Internet exchanges/Web sites, but less than five percent say they were currently using one. Senior merchandising managers saw manufac-

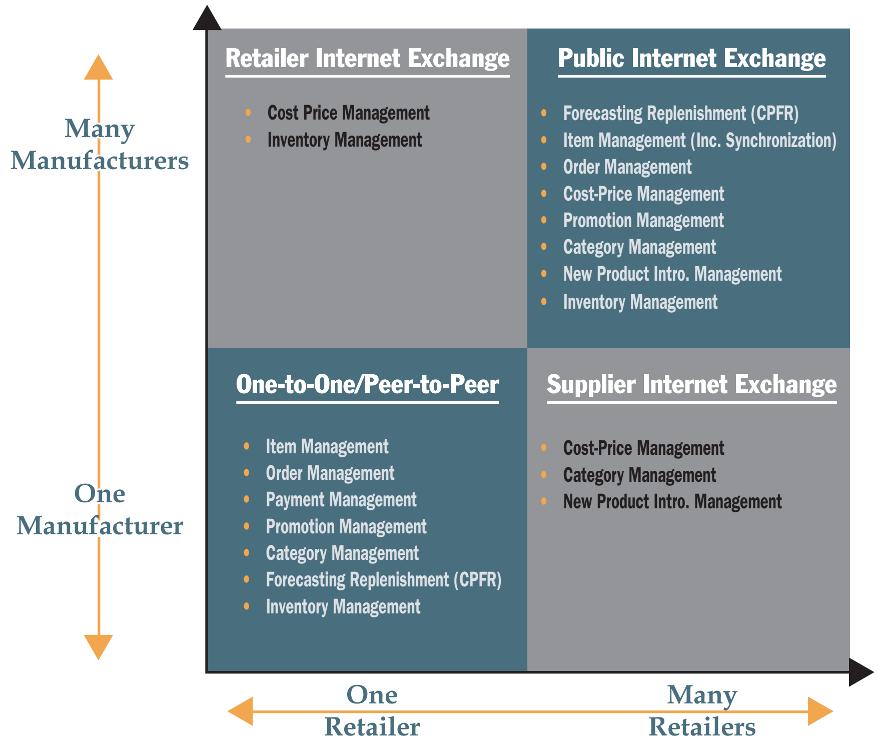


turer Internet exchanges as a self-service solution, providing information about the categories, markets and sales movements as opposed to a transactional Web site for order management.

Eighteen percent of the retailers say they would use their own private Internet exchange. European retailers such as Tesco and Sainsbury have developed complex networked IT systems that allow them to run their own private Internet exchanges and connect with their trading partners. In the U.S., Wal-Mart and Kmart have launched their own private Internet exchanges to work directly with their vendors.

Retailers mainly use public B2B Internet exchanges to connect the prioritized business processes such as item management, forecasting replenishment and order management.

Retailers' Process Connectivity



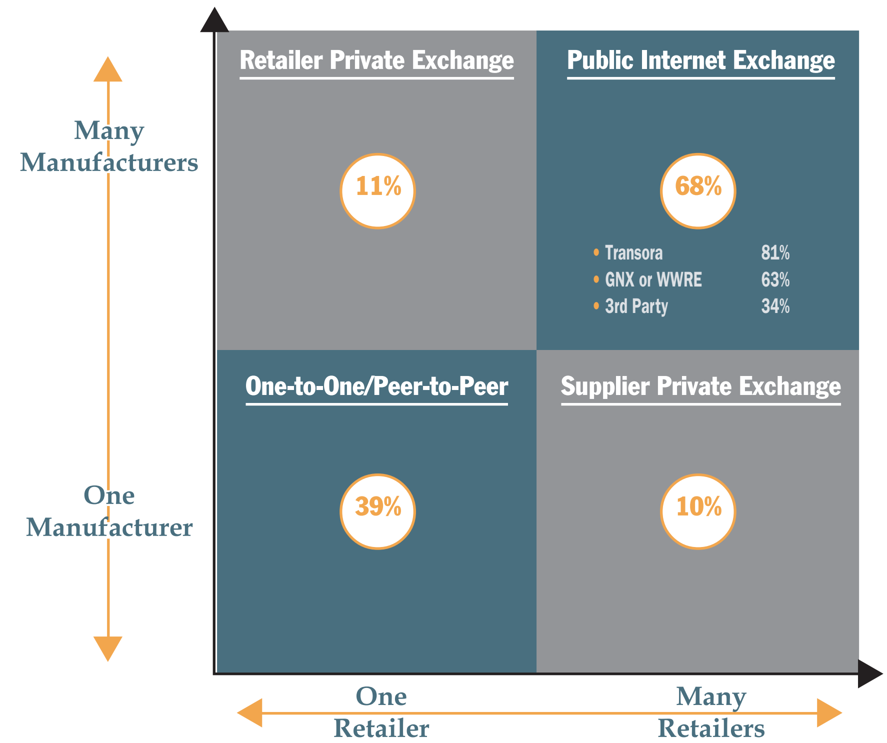
Most companies note they would use multiple ways of connecting business processes with manufacturers. For example, retailers use both public Internet exchanges and one-to-one solutions for item management, forecasting replenishment, order management, category management, promotion management and inventory management.

Cost-price management can work on the public B2B Internet exchanges, but, due to the complex, sensitive issues involved, most retailers say they would use one-to-one solutions or private Internet exchanges. Senior merchandising managers and category managers say they would be willing to use category management solutions through supplier Internet exchanges if they could provide information on category trends, seasonal buying and new product introductions.

Manufacturers Will Focus on Multiple Connections

Most manufacturers (68 percent) say they would use public B2B Internet exchanges. Transora is considered the primary exchange for manufacturers, but 63 percent of companies say they would consider also using GNX and the WWRE to connect with retailers. Far fewer manufacturers than retailers (34 percent vs. 58 percent) are planning to use third-party Internet exchanges.

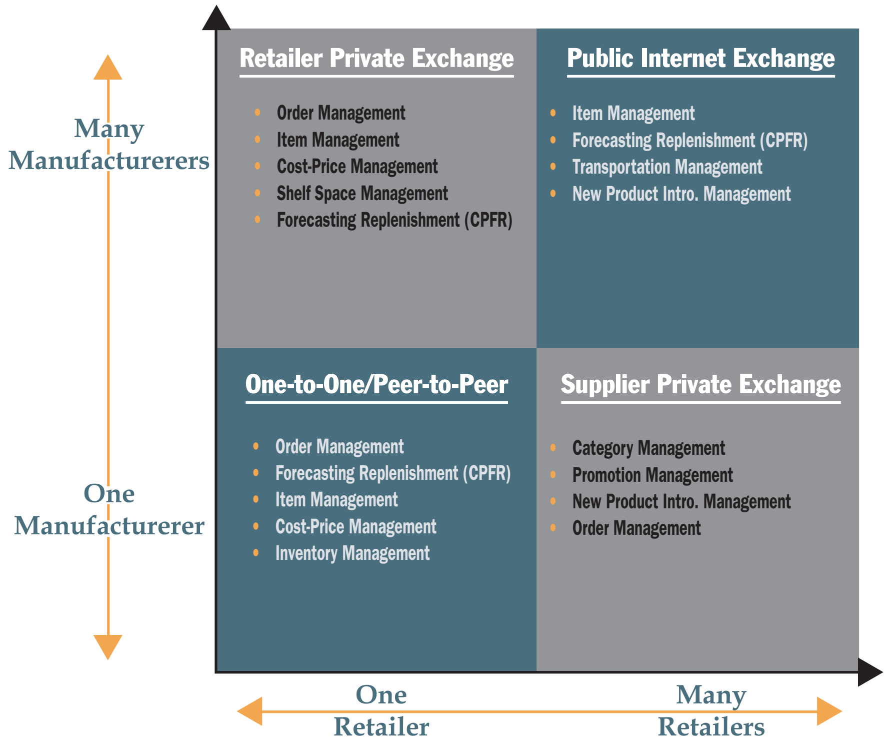
Manufacturers' Connectivity Planning



Thirty-nine percent of manufacturers mentioned they would use one-to-one or peer-to-peer solutions for B2B e-commerce. Similar to the retailers, private Internet exchanges a high priority. Only 10 percent of companies say they would use a private Internet exchange to connect business processes with retailers. When asked whether they had begun, or were planning to launch, a private Internet exchange within the next 12 months, 34 percent said yes.

Manufacturers were less clear than retailers about how they were planning to connect different business processes. Many manufacturers indicate that complex and sensitive business processes such as promotion planning management and category management cannot and should not be accomplished on a public Internet exchange. Public Internet exchanges would be used to support business processes such as item management, forecasting replenishment, transportation management and managing new product introductions.

Manufacturers' Process Connectivity



Manufacturers placed a high priority on order management for connection through a retailer private Internet exchange and one-to-one solution. Manufacturers also plan to connect category management and promotion planning management through their own private Internet exchange.

Exchanges Built by the Industry, for the Industry

Almost all companies participating in the e-readiness study note that they would use a public B2B Internet exchange to connect one or more business processes. However, the questions raised in the interviews were whether the current industry exchanges could support the prioritized business processes identified in this study and when these services will be available.

GlobalNetXchange (GNX)

Sears and Carrefour established GlobalNetXchange (GNX) in February 2000, in partnership with software vendor Oracle. The Kroger Co., J Sainsbury, Metro, Coles Myer, Pinault-Printemps-Redoute, and KarstadtQuelle subsequently joined as equity partners. Today, the exchange has 10 equity partners and 11 members — both retailers and suppliers — operating in 51 countries. GNX positions itself as the "leading functional electronic marketplace for retailers and suppliers to communicate, collaborate and manage their supply chains." It is operational with a transaction hub service to facilitate online data catalog and processing of purchase order and payment transactions. It recently launched its CPFR service.

Public B2B Internet Exchanges Services

SERVICES AVAILABLE

	GlobalNetXchange	RetailersMarket Xchange	Transora	WorldWide Retail Exchange
Item Management	Data Synchronization Available 2002*	Item Catalog Available	Data Catalog Available	WWRE Catalog Available
Forecasting Replenishment	GNX Collaborate Available	Planned	Syncra's Xt™ Platform Available	WWRE Collaborative Planner Available
Category Management	No Immediate Plans	Category Central Available	Planned	No Immediate Plans
Promotion Planning Management	GNX Market Manager Pilot Q4/01*	Basic Functionality Available. Advanced Planned for 2002	Service Available Q2/02*	WWRE Collaborative Planner Available
Inventory Management	No Immediate Plans	No Immediate Plans	Planned	No Immediate Plans
Order Management	No Immediate Plans	Catalog Order Management Available	Service Available Q1/02*	WWRE Order Execution Available
Cost-Price Management	Data Synchronization Available 2002*	Planned 2002	Service Available Q1/02*	WWRE Catalog Available
New Product Intro. Management	Support Through GNX Market Manager	Basic Functionality Available. Advanced Planned for 2002	Support Through Data Catalog	WWRE Catalog Available

*Service release timing may vary based on market conditions, software availability and trading partner readiness.
Source: Information directly from listed companies.

RetailerMarketXchange (RMX)

RMX was launched in December 2000 with investments from Chevron, McLane, Philip Morris and Oracle to make it easier for fuel and convenience retailers and their suppliers to do business. It is positioned to be the channel expert to the convenience and small retail sector. RMX serves as a point-of-aggregation for the fragmented convenience store channel by providing secure communication, commerce software and services, and operating an open marketplace. RMX provides private extranet services for retail chains, such as Chevron and Marathon, allows suppliers to access the retailer community at the industry marketplace, and integrates with third-party business applications for retailers to improve store operations. To facilitate business processes between convenience and small retailers and consumer packaged goods companies, RMX is focusing on providing exchange services such as supply chain data aggregation, promotions management, rebate tracking, automated replenishment, item management, and collaborative forecasting and planning.

Transora

Transora was created in June, 2000 by 58 leading consumer packaged goods companies to build a shared, standards-based platform for common services and assets among manufacturers and their trading partners. The exchange's sell-side services are aimed at streamlining the manufacturer/retailer value chain, and Transora is committed to facilitating collaboration between manufacturers and retailers. Because development costs are complete and were funded by the original investors, Transora offers its retail-focused services (such as data catalog and CPFR) free to retailers.

Transora is working to define standards that support interoperability among trading partners and exchanges. It has adopted the Global Commerce Initiative-endorsed UCC standards and is integrating these into its data catalog.

WorldWide Retail Exchange (WWRE)
In April 2000, 17 global retailers joined forces to build the WorldWide Retail Exchange (WWRE). Today, the exchange boasts 58 members operating in more than 130 countries and generating sales revenues in excess of $820 billion. One of the exchange's core principles is collaboration between trading partners, and the WWRE recently opened its membership to manufacturers. To support the retailer/supplier collaboration, it has launched an electronic catalog integrating data needed for other business processes, such as order management and CPFR.

The WWRE has been actively involved in setting standards for the industry and has adopted Global Commerce Initiative-UCCnet standards. The exchange is committed to building an open community of trading partners.

B2B E-Commerce Interoperability — An Industry Necessity

Given the number of private, public, horizontal and vertical exchanges in the marketplace today, it is clear that a single point of connectivity will be difficult. Manufacturers, on the one hand, are encouraged to connect to individual exchanges and to numerous public and private entities. Since retailers have a different focus but belong to the same exchange, they will be confronted with dealing with different trading partner communities that offer a select set of products. The complexity of establishing connections with every trading partner or exchange, in addition to functioning on multiple collaborative commerce platforms, will be burdensome — if not impossible — without interoperability.

Many companies still think all trading partners must agree on the same technology and systems in order to integrate. The reality is this: Companies must connect with many trading partners that have systems they do not control. The real challenge is to link data and processes seamlessly throughout the business community regardless of technology or of systems.

Interoperability is a method of connecting exchanges and peer-to-peer solutions to transmit information among different trading partners no matter what software or exchange they may be using. However, if interoperability cannot be solved quickly, it could become time-consuming and cost-prohibitive for the successful deployment of B2B e-commerce.

Most executives interviewed as part of the e-readiness study stress two major issues for interoperability: (1) industry standards and (2) interconnectivity.

Industry Standards

Companies need to be aware of two types of industry standards in the implementation of their B2B e-commerce activities: (1) global standards for retail item and item data maintenance and (2) technology standards and protocols for e-commerce.

(1) Global Standards for Retail Item and Item Data Maintenance.
The application of standard data formats can have major benefits for both retailers and manufacturers. Unless the data in a manufacturer's system and the data in its retail trading

partner's system are synchronized, the error rate will prevent an efficient automation of processes between the two companies. Item synchronization is based on the use of common global standards such as the *global trading identification number* (GTIN), a 14-digit identifier for individual products — pallets, shippers, consumer units, inner packs and case packs — and the *global location number* (GLN) to identify business locations.

An overwhelming majority of retailers and manufacturers participating in this e-readiness study say they support global item standards and plan to adopt these standards over the next two years. A recent FMI study noted that 54 percent of retailers will have upgraded their systems to 14-digit capabilities at both point-of-sale and database levels by 2003. The Uniform Code Council (UCC) and the UCCnet are seen as the leading organizations in the development and implemention of global standards for retail item and item data maintenance.

(2) Technology Standards and Protocols for E-Commerce.
Major retail and consumer goods companies have agreed to support the accelerated development of a fundamental set of standards and protocols for the exchange of data via the Internet. However, this e-readiness study found that many companies today are waiting for technology standards development before moving forward. Several companies say that they are unclear which organizations will set the technology standards for the industry and which organizations will adopt what standards and processes.

Retailers with annual revenues less than $10 billion believe the consortia-led Internet exchanges would determine and execute the industry standards. Retailers with annual revenues exceeding $20 billion see the technology standards being determined by leading retailers and manufacturers, with the Internet exchanges implementing these standards via technology providers.

Few companies recognize UCCnet as the standards organization providing technology standards for the industry. The Global Commerce Initiative (GCI) is mentioned by several executives as a possible forum for industry standards development. However, this is clearly not the intended purpose of the GCI. Its goal is to endorse a set of recommended open and voluntary technology standards. This set will be developed and implemented by international standardization organizations such as UCC and EAN.

In September 2000, members of the GCI announced plans to use ebXML as the technical infrastructure for B2B e-commerce in the consumer goods industry. However, no company in the e-readiness study said they had adopted this standard.

Interconnectivity

The vision of B2B e-commerce is that it is a platform on which multiple parties can operate using various connection methods. The exchange-to-exchange, or marketplace-to-marketplace, concept will become more common as both peers and marketplaces realize that by working together through inter-connections they can reach critical mass more rapidly. This echoes the way traditional phone companies and some wireless telecommunication organizations work together. Interoperability between exchanges is the only way to make the promise of the Internet a reality for business.

Over the last year, the three main consortia-led B2B Internet exchanges have rushed to position themselves as the primary exchange for the industry. To support trading partner connectivity, the exchanges are also starting to exchange data for use by their respective member-companies.

Several retailer executives participating in the e-readiness study say they wish the three competing Internet exchanges would consolidate and create a common B2B Internet exchange for the entire consumer goods industry. As one retailer executive expressed it: "We need an industrywide operation system to run on our computers." Such an industrywide operation system (I-OPS) — according to the retailers interviewed — would have strong industry knowledge, support from all industry players and a comprehensive technology infrastructure. The I-OPS would be the next evolutionary step for organizations that migrated from departmental computing to enterprise computing and enterprise resource planning (ERP) in the 1990s. The next natural step is the movement from enterprisewide computing to industrywide computing.

Today, companies are required to join several Internet exchanges and pay membership fees and transaction fees. Some executives fear that at some point these fees will outweigh the financial benefits generated from B2B e-commerce, and companies will reconsider their connectivity strategy.

The Revival of the Sales Agent

At the end of 1999, industry experts predicted that the Internet would make middlemen and sales agents redundant. Companies would connect directly with each other, and, due to the scalability of the Internet, manufacturers could deal directly with the retailers. The reality is that many manufacturers continue to use sales agents and involve them in their value-added processing to retailers, and they are expected to continue to use sales agents in the future.

As part of the e-readiness study, seven leading sales agents and wholesale distributors were interviewed to understand their readiness to support B2B e-commerce between manufacturers and retailers.

Today, only a few sales agents and wholesale distributors are preparing for B2B e-commerce. The rest have not yet made a commitment.

Many fear Internet technologies will make face-to-face negotiations obsolete, but leading brokers and distributors embrace the new technologies that make them more efficient. These companies are implementing their own Internet portals and in-house exchanges to help smaller clients keep up. For example, Fleming Companies, Inc. — a leading U.S. food marketing and distribution company serving more than 3,000 supermarkets in 42 states — began to implement an innovative B2B e-commerce portal named VISIONET in 1996. The business-to-business networked service was designed to enable improved communications and commerce among retail customers, suppliers and Fleming. In 2000, Fleming spun off VISIONET and created an independent technology company, Cerespan.com, to enhance the venture and ensure the independence of the system.

By providing services to help small manufacturers react to daily store-level movement data and improve demand forecasts, sales agents create a more viable partnership with its clients.

Some sales agents participating in the e-readiness study say they have their capabilities in place but are waiting for the manufacturers to get ready. They did not see any technology hurdles. The lack of strategy and commitment from the manufacturers appears to be blocking sales agency implementation.

A Case Study: X Marks the Spot for Hidden Treasure

CROSSMARK Inc. is one of the nation's largest sales and marketing organizations representing roughly $20 billion in sales of household brands distributed to 300 retailers. Its roots date back to 1905, and today it manages thousands of contact points in all of its manufacturer-to-retailer relationships. And, as these retailers and manufacturers are turning to e-commerce to facilitate transactions and communication, so is CROSSMARK.

According to Charlie Orndorff, CROSSMARK Chief Information Officer, "Seamless integration among our trading partners is paramount to our overall success." A large part of company strategy now hinges on the success of its B2B initiatives. A goal of these initiatives is to give its more than 6,000 sales representatives quick, direct access to information to help them deliver better service while improving cross-company and cross-industry coordination, communication and collaboration.

When CROSSMARK first began working on its B2B e-commerce strategy, it had to make a choice between transparency and confidentiality. Because its business model is focused on increasing sales and providing high quality service, it placed its strategy bets on transparency and started changing its business model. Today, CROSSMARK's is positioned as a highly transparent, highly efficient sales and marketing company. Its B2B e-commerce strategy includes three main tenets:

- Improved communication with client partners in the supply chain.
- Seamless order reporting process via shared views.
- Centralized accounting and procurement functions.

Connectivity is an essential core competency for CROSSMARK. To this end, it has ensured that its systems are fully accessible via its eXchangeBridge.com.

As Orndoff explains: "For example, we have been working with a major food manufacturer with multiple brand and product lines. Our client used multiple formats for communication and order processing, including e-mail, fax, hardcopy and EDI. The manufacturer continually encountered significant difficulties in maintaining data integrity. Now, the client can enter and manage product data directly over the Internet through our secure Web-based link."

CROSSMARK's case represents a solution developed independently of the traditional consortia-led Web solutions.

(CROSSMARK's proprietary applications are developed by its sister company, CROSSMARK Performance Group.)

Chapter 6

E-READINESS: JOINT OPPORTUNITIES

This e-readiness study identified that most retailers and manufacturers are committed to the preparation for B2B e-commerce with their trading partners but are still some way from being ready to use it.

To date, only a few companies actually are using B2B e-commerce applications, and most executives participating in this research are still unsure about how it will work.

As part of the this study, companies were asked how they see varied aspects of their B2B e-commerce work:

Item Management

Most e-business executives and category managers see item/catalog management as a way of simplifying their work and removing unnecessary discussion from meetings with trading partners. Item management was an important ECR initiative under EDI implementation. Few retailers and manufacturers managed to implement this EDI/UCS-II transaction set, contending the technology was too cumbersome. Current big supporters of item synchronization, however, believe it could generate higher financial returns than auctions in the long term.

Retailers believe that, in the future, only one data entry point would be used and the manufacturer would be responsible for managing the product data (product code, descriptions, pallets etc.). Once authorized by the category manager, this information could flow directly to the stores.

Several successful standardized synchronization pilots have already taken place in the U.S. In February 2001, Kraft Foods and Shaw's Supermarkets successfully communicated standardized product life-cycle information via UCCnet. The companies completed the database synchronization process by sending and receiving XML data through UCCnet for new items, authorization and de-authorization of products, and editing item specifications.

Most retailers (44 percent) are planning to implement data synchronization through public B2B Internet exchanges. In the short-term, however, they will use a peer-to-peer connection.

The public B2B Internet exchanges have launched, or are in the process of launching, their own version of item catalogs based on the UCCnet GLOBALregistry™ and tailored to the consumer packaged goods industry.

On the other side, 47 percent of manufacturers stated they would use peer-to-peer solutions for item management, and 20 percent would use their own private Internet exchange.

Cost-Price Management

Price and promotional discrepancies between a manufacturer and retailer often lead to invoice deductions, which take time to resolve or, in some cases, are written off because the time and effort expended to resolve them is not worth the dollar amount of the deduction.

Most retailers participating in the e-readiness study believe that cost-price management is an easy B2B e-commerce application to implement once the item authorization process has taken place. Cost data and promotional allowances could be sent by the manufacturer for approval — similar to the process for item data — and incorporated into the retailer's data repository.

As part of the 1999-2000 GMA DSD scan-based trading pilot tests with Schnuck's Markets and Andronico's Market, 12 manufacturers were able to synchronize cost-price data using the ViaLink Company as an intermediary information/network provider. The synchronization process allowed the retailers not only to account for trade allowances properly, but also to eliminate pricing errors. As a result, no deductions occurred in one retailer and deductions were reduced in the other retailer organization — no doubt due to the fact that both the manufacturers and retailers used the same price data.

As cost-price data are extremely sensitive to most companies, retailers and manufacturers are looking for secured connections to share and synchronize this information. Forty percent of retailers are planning to connect through public B2B Internet exchanges for cost-price management with suppliers. However, 45 percent of retailers are considering using private Internet exchanges either through a manufacturer's extranet or their own networks.

On the other side, 37 percent of manufacturers are planning to use public Internet exchanges, and 44 percent point out that they would use a one-to-one solution.

Order Management

The majority of retailers participating in the e-readiness study say they would continue to use VAN-based EDI for order management. A small group of retailers (24 percent) are experimenting with Internet-based EDI order management. Most e-business and senior merchandising managers are unclear about the benefits of Internet-based EDI.

VAN-based EDI has been implemented with larger manufacturers and some executives do not believe it would make sense to transfer EDI to the Internet at this point. However, Internet-based EDI has several advantages over VAN-based networks: (1) It is more cost efficient since it uses the Internet infrastructure and can create a virtual private network (VPN) or an "IP Tunneling." (2) It provides instant-on B2B commerce connections. (3) It offers a single route for all messaging, compared with having to maintain EDI VAN linkages and new XML links.

In October 2000, Royal Ahold NV and Johnson & Johnson successfully transmitted purchase orders using the Internet. A purchase order was created by the Ahold EDI system and transformed into an XML message. The XML message was sent over the Internet to Johnson & Johnson, transformed back into EDI and successfully processed on their customer order system.

Forecasting Replenishment

CPFR is well known as a concept, having been a part of the ECR movement of the 1990s. The availabilities of the technological infrastructure to make the complete utilization of this initiative, however, are much more recent on the scene. Only a dozen companies to date have pilot-tested CPFR applications.

Most retailers are in the pilot-discussion phase and want to understand the benefits achieved through CPFR before moving farther toward implementation. Some category managers are afraid of "data overload" and seem unclear about how the process will work. Retailers say the resource-intensive preparation and implementation phases of CPFR make it impossible to execute with all manufacturers. There are strong indications among retailers that CPFR will be reserved for large retailers and a maximum of 30 to 50 of their largest suppliers. Retailers piloting CPFR applications say they are focusing more on the *forecasting* part, and the minority have been able to provide collaborative support for *replenishment* and delivery execution.

Few enterprises have in-depth experience of the CPFR work process across multiple trading partners and the software involved in CPFR continues to evolve and improve. As a result, much of the current work is focused on one-to-one pilots.

Collaborative efforts have been hindered by the fact that many companies — particularly many retailers — appear reluctant to provide proprietary data such as product forecasts and promotional calendars.

Some retailers are planning a CPFR connection through either the public Internet exchanges (47 percent) or a peer-to-peer connection (41 percent).

Manufacturers are mainly planning to use peer-to-peer solutions. Forty-nine percent of manufacturers plan to use a peer-to-peer connection, and 36 percent would use a public Internet exchange.

Category Management

Companies are divided about the potential B2B e-commerce application of category management, but with the right level of support, these companies would find it useful.

The key problem is that one full-blown category review often requires 200-400 man-hours of work. A retailer with more than 150 categories and a manufacturer with hundreds of retailers do not have the time to support the traditional manual category management process. The process requires consistent integration of facts and figures coming from different sources — data that often is incomplete and inconsistent.

Some companies have launched a lean approach to category management, but this can lead to sacrificing the superior category insights that feed the tactical implementation with in-depth category knowledge. There is clearly a need to improve the current process. However, most retailers perceived category management as being one of the most difficult business processes for B2B e-commerce.

Today, few retailers have concrete plans for an e-category management solution but would be interested in using supplier Web sites if they could provide information on category trends, seasonal buying and new product introductions. Overall, retailers believe that the e-category management solutions would have to reduce the workload substantially, organize internal and external process management support and category data in one place, and provide an operative interface between the retailer and the manufacturer.

Sixty-three percent of retailers say they would expect the public Internet exchanges to provide a solution for collaborative category planning with manufacturers. Thirty-five percent of manufacturers expected it to be a one-to-one solution, and 20 percent say they would use e-category management with retailers through their own private Internet exchange.

Promotion Planning Management

Category managers are very enthusiastic about collaborative promotion management but stress it had to be for the whole category in order to plan category promotions. An immediate solution would be an application to track market development/promotional funds and receive critical promotion information from suppliers such as promotion calendar, products, themes, etc.

No U.S. retailers have yet implemented a promotion planning system. However, solutions exist in Europe. In 1998, Sainsbury's, the second largest grocery retailer in the U.K., launched an innovative application called collaborative planning system (CPS) for its more than 4,000 suppliers. CPS enables Sainsbury's and its suppliers to plan promotions and jointly manage key tasks to increase promotional efficiency. The account managers will present the details of the deal or event to the retailer's category manager and then enter details of the promotion such as offer, products, price, etc. in the CPS system. The retailer's category manager can review on his screen all promotions proposed in the category and accept the ones that fit with the category business plan. Information automatically passes on to manufacturers that will know what promotions have been accepted, and to the retailer's supply chain managers to start forecasting the promotions. When the promotion is live in-store, all parties can monitor the promotion performance on the same Web site where items such as POS, stock levels and in-store availability are displayed

Fifty-four percent of retailers participating in the e-readiness study are planning to connect through the public Internet exchanges for collaborative promotion planning with suppliers. Thirty-five percent of manufacturers are unclear about where to connect for promotion planning management. Of the ones responding, 28 percent say they would use a one-to-one solution.

Getting Ready for B2B E-Commerce

So what can your company do to get ready for B2B e-commerce? Some fundamental facts emerging from this e-readiness study may be useful in devising your company's B2B e-commerce strategies.

Align Objectives and Performance Measures with Trading Partners

Misalignment of basic goals and of performance measures between trading partners is not likely to be solved by itself. Industry history over the last several years reveals that trading partner alignment will only take place if both parties see a financial benefit and are willing and able to partner to improve the process.

The implementation of B2B e-commerce could be hindered if companies cannot define the benefits. Often retailers and manufacturers consider only the benefits to certain departments and fail to see how B2B e-commerce will improve the entire organization or the entire supply chain.

Focus First on the Fundamental Business Processes

Item management, cost-price management, order management and — for DSD companies — payment management all rate a "high priority" for both retailers and manufacturers. These processes create the foundation for others, such as promotion planning management and forecasting replenishment.

Executives interviewed for this study say the transactional processes need to be simplified and automated. They note that it is one thing to extract data manually once and send it. It is another thing to set up a rigorous process in which systems extract and process data and send it out on a regular basis.

Once the foundation has been created, they point out, companies can focus on collaborative business processes to drive topline growth (category management, promotion planning management, forecasting replenishment) and improve efficiencies (new product introduction management, inventory management and transportation management).

Understand How Data and Money Are Processed

The study reveals that without a good internal understanding of data and dollar flows for key business processes, companies will have a difficult time implementing new e-commerce solutions. The broad scope of B2B e-commerce, which integrates multiple business functions much like ERP (enterprise resource planning) applications, imposes difficulties on implementation. Retailers and manufacturers need to consider re-engineering or reconfiguring processes within their own enterprises before demolishing the walls between companies.

Additionally, many of the industry’s legacy IT systems were never designed to share data, and packaged ERP applications have been heavily customized to support unique internal business processes, making it difficult to adapt to B2B e-commerce.

Companies also need to clean-up master file databases to enable data synchronization. Today, most companies have data inconsistencies or irregularities that will create inaccuracies and frustration in a real-time, automated, collaborative environment. Matching of items and data will take more time that projected and will require a great deal of internal systems work in the beginning. The level of data clean-up varies depending on the state of the internal systems and the number of items and promotions. While doing the data clean-up, companies should consider adopting global item standards, such as the 14-digit GTIN instead of today’s 12-digit Universal Product Code (U.P.C.).

Set-up Appropriate Connections

To take full advantage of the Internet, companies should set up appropriate connections for key business processes that will enable them to communicate and share data with their trading partners.

The study found that executives interviewed believe that interoperability will be a reality in the future. In the meantime, however, companies need to decide whether they connect through a single linkage point or an Internet exchange or through multiple Internet exchanges. Each company must consider each business process individually and determine the best possible connectivity for that process for their own operations and those of their trading partners.

Get Involved with B2B E-Commerce

The most critical factor to successfully implementing B2B e-commerce is not a technical one. Rather it is a people barrier. B2B e-commerce not only requires new know-how, but a different mindset from employees across all functions in the company.

Company executives should work with their trading partners to gain operational B2B e-commerce experience and understand the implication on their own internal business processes. The e-readiness study identified this area as the biggest weakness in both retailers' and manufacturers' readiness for e-commerce.

Mobilize the Organization

The impact of B2B e-commerce requires a shift in many business functions toward speed, flexibility and collaboration. However, few of the companies participating in the e-readiness study had communicated their B2B e-commerce strategy to their own employees, and no retailers or manufacturers had set up processes for sharing knowledge on e-commerce.

Those companies that already have embraced process-driven structures will require the least amount of change to accommodate B2B e-commerce. Companies with very strong functional organizations, however, will need to address the alignment and integration of decision-making across functions and enterprises. These changes will be substantial.

This e-readiness study found that industry executives believe that B2B e-commerce will soon be a reality. Retailers and manufacturers are committed to getting ready and say they will have their capabilities in place within the next two years.

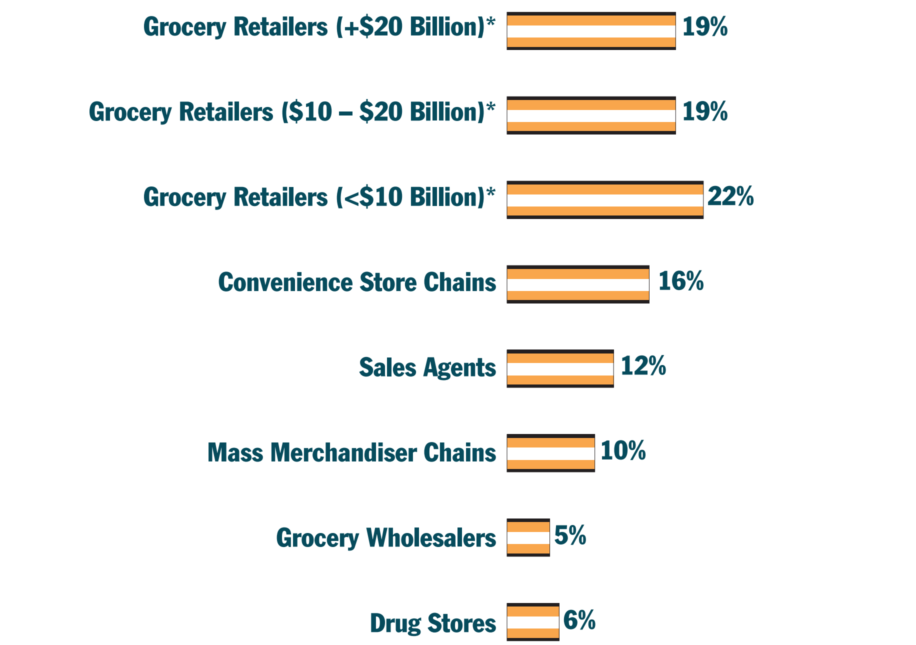
B2B e-commerce is no longer a question of *if* but *when*.

Appendix: Study Methodology

The e-readiness study received an overwhelming interest from both U.S. retailers and manufacturers. Forty-two grocery, drug, mass merchandising and convenience retailers participated in the research. These companies represent approximately 65 percent of the total sale of groceries in the United States for these various channels.

Participants ranged from large grocery retailers and wholesalers generating more than $14 billion annual revenues to convenience store chains with annual grocery product revenues of less than $1 billion.

Profile of Retailer Participants



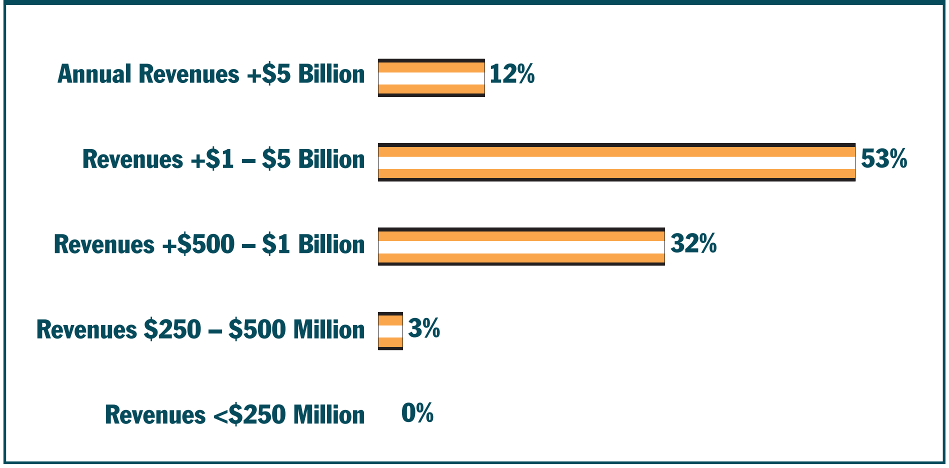
*Annual Revenues

On the manufacturer side, 46 companies participated in the assessment of their readiness for B2B e-commerce. These manufacturers range from large multinational, multibillion dollar companies to smaller national producers with a focused portfolio of retail customers.

Sixty-one percent of the participating manufacturers are part of a consortium-led B2B Internet exchange such as Transora or CPGmarket.com. Fifty-two percent of the companies supplied their products through warehouses, 28 percent delivered directly to stores, and 20 percent used both distribution models. The majority of the manufacturers produced dry grocery products (36 percent), general merchandise and health and beauty care products (27 percent), and beverages and alcohol (27 percent).

Thirty-eight percent of the retailers participating in this study are members of consortium-led B2B Internet exchanges such as the WorldWide Retail Exchange (WWRE), GlobalNetXchange (GNX), or RetailersMarketXchange (RMX).

Profile of Manufacturer Participants



Several interviews were conducted within each retailer organization to fully understanding the company's readiness for B2B e-commerce. Thirty-seven senior executives were interviewed to ascertain the retailers' B2B e-commerce vision and strategic priorities. Twenty-eight IT executives and B2B IT managers were asked to assess current and near future capabilities and technical readiness, and 59 supply chain and senior merchandising managers and category managers were included to understand the application of B2B e-commerce

GROCERY MANUFACTURERS OF AMERICA
1010 Wisconsin Avenue NW, Ninth Floor
Washington, DC 20007
202.337.9400 202.337.4508 fax
www.gmabrands.com

Roland Berger
Strategy Consultants
350 Park Avenue, 27th floor
New York, NY 10022
212-651-96 60 212-756-87 50 fax
www.rolandberger.com