THE CHANGING CPG MARKETPLACE

Over the past few years there's been a fundamental shift in the North American CPG market. Negotiations have become transactional, short term oriented (no more than 1 year), with retailers aggressively using their power to extract unilateral value from suppliers. This has led to less partnership as adversarial negotiations move from win-win to win-lose. First, we need to understand why retailers are focusing on value extraction and margin support from suppliers. Although not a complete list, here are the six fundamental reasons.

- Retailer Consolidation: Kroger/Fred Meyer/Harris Teeter, Albertsons/Safeway, Family Dollar/Dollar Tree, Shoppers Drug/LCL
- Retailer Trade Expansion: Walmart/Jet, Kroger/Vitacost.com, Amazon/Whole Foods
- Market Entrants & Expansion: Lidl, Aldi
- Dollar Channel Expansion
- .com expansion is expensive for brick and mortar retailers
- Margin Suppression as retailers compete for shoppers over price.

Most agree these six factors are expected to increase, not decrease in the coming years. From a negotiating perspective, consolidation and expansion means power accumulation. This allows for and drives effective value extraction. Power is everything in negotiation.

As retailer go after customers with lower pricing or invest in other areas (nicer stores, online, etc.) these reduce margins and simply cost money they do not have. This drives transactional, value extracting negotiations between the retailer and the suppliers – someone needs to pay for these investments. These value grabbing negotiations are now a mainstay. Thus, a plan to deal with these factors is a strategic imperative for suppliers. Waiting for the next 'big ask' is unacceptable.

'BIG ASK' ORIGINS

First successful in Europe, unilateral demands have now come over to the Canadian and then the U.S. market, turning annual negotiations highly adversarial. More subtly, we have seen European buyers/merchants come to Canada and the U.S. bringing this approach and methodology. In some cases, retailers have elicited the help of large consulting firms to extract value.

Add in the consolidated Canadian market with Loblaws/Shoppers Drug negotiating aggressively for many years, with others like Walmart learning and following if for no other reason than to keep pace.

FUTURE CHALLENGES

We must also consider cross-continent, single retailer leverage. For the first time in 2017, we saw Costco leverage its global scale with its one new club in France. As Aldi and Lidl grow in the U.S., we can only imagine this to become more commonplace.

When we add in the future ambiguity of e-commerce, whether pure play, click & collect, etc., further nervousness and trepidation by retailers is afoot. Larger retailers must become nimbler to survive. Again, this produces fast change and short termism. Change and adaptation costs money.

So, what does the future look like, and how does a CPG firm protect itself and position itself for growth in such a marketplace. It is clear the ways of the past will not succeed in the future.

FOUR TAKEWAYS FOR SUPPLIERS

First, suppliers must accept the rapidly change marketplace including e-commerce. This will only move quicker. Firms must be more agile and open to change. If your strategy to get to an end consumer is not working, you must reassess and change course quickly. Be ready to make mistakes and quickly move on.

Second, suppliers must realize whether online or brick and mortar, retailers are distributors. They are a means to the end consumer, not the consumer itself. Focus appropriately.

Third, CPG firms must have a clear ROI based promotional structure, whether pull or push, which has the flexibility to quickly evolve. At what point does a firm move growth funding between higher ROI producing retailers, or possibly outside retail all together to get to the end consumer. But, if an ROI approach is taken, not everyone can win. Does the internal funding structure allow for that? Is the firm being faithful in an unfaithful world? Is fairness a driving principle, or an excuse to treat everyone equal, even though they don't treat you in kind? Why not have retailers sell to you on what they can do with your investment dollars, instead of you to them?

Fourth, a supplier must take a global view. Does it treat retailers with global reach all the same? What happens when Aldi, Lidl, Walmart, Costco, demand global terms and discounts and leverage their global power? Nationalistic or regionalized approaches will no longer work.

- **What's your negotiation strategy?**
- **Is your firm thinking tactically – negotiation to negotiation, or do you have a more holistic plan?**
- **How are you building your perceived power every day, every engagement? Are you ready to use it?**
- **Do you know how to leverage your power effectively? Do you have the confidence to do it?**
- **How does your for-profit firm drive value, extract profit and position itself for long term success? That's what a shareholder wants to know – how are you positioned to secure and sustain value.**