



Transforming Retail Procurement With Data

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With retailers still working to respond to the global coronavirus crisis, partnerships and supply chains have never been more important – or under more pressure.

In a ‘normal’ year, annual and mid-year supplier negotiations can be the crucial difference that results in consistent margin performance and stable, predictable cost of goods sold (COGS) improvements. In this uniquely uncertain climate, the next round of negotiations will be the most significant in at least a decade, perhaps ever.

The retail leaders who are most confident in their supplier networks and overall COGS efficiency are positioned to grow share and remain competitive over the long term. Alvarez & Marsal’s Advanced Retail Negotiation Tool (ARNT) helps retailers take command of supplier data and prepare more effectively for supplier negotiations. Data-driven negotiating can deliver an extra 1-1.5% improvement to COGS, as well as reducing negotiation preparation time and increasing the number of separate negotiations that can be handled three or four-fold. Better modelling could make all the difference in this strange and challenging retail environment.

The negotiating challenge

Managing supplier partnerships is always a complex undertaking, and data has never been more central to delivering results.

Retailers and suppliers need to leverage data to bring increased objectivity and transparency to the table. Retailers’ recoveries post-coronavirus will not be aided by ‘friendly’ partnerships that are contingent on personal relationships.

Retailers face significant challenges in managing and using data productively when preparing for and executing negotiations. Better understanding and more effective use of vital metrics such as overall profitability, the performance of inventory and promotions, and soft performance factors (EDI usage, auto-matched invoices, late delivery of goods) have been shown to boost negotiation results by between 15% and 25%. But inconsistencies and asymmetry within organisations can prevent these metrics from being appropriately leveraged.

In the battle for the best supplier terms, the retailers that bring the most authoritative and detailed information on branded goods to the table will be in the strongest position. A&M’s ARNT modelling functionality brings together a range of metrics and data points into one place, helping leading retailers identify key points of leverage that can dictate the outcome of brand supplier negotiations. Coupled with A&M’s transformation expertise, the ARNT can help build strong partnerships that can deliver long-term benefits to all parties.

Data: the vital ingredient

For retailers to enter into supplier negotiations with a strong hand, executives must have confidence in their organisation's ability to accurately measure key supplier metrics, and how each supplier compares to sector-wide benchmarks.

All too often, retailers have significant volumes of important supplier data that remains untapped, which could deliver stronger arguments and better results in negotiations. Central functions control important information such as the bonus payments paid by suppliers. Even if the analytical models being used in sourcing and trading departments are highly sophisticated, incomplete information sharing can damage retailers' prospects of completing successful negotiations.

Multi-banner retailers have to cope with issues like different data structures within different operating companies. Even if a retailer has invested significant cost into building a sophisticated data warehouse, this does not mean teams on the ground can make full use of the data available. Success in negotiations needs more than simply controlling data: it needs to be leveraged in ways relevant to a given negotiation.

Effective use of data in preparing and executing COGS negotiations can impact companies' EBITDA and share prices. With COGS weighing heavily on income statements, underperformers may face new pressure from activist investors seeking to bring about boardroom change or reorient corporate priorities. The stakes are high.

A&M has been tasked by leading retailers to tackle these problems. To empower retailers seeking to more effectively leverage data within their organisations, A&M has developed the ARNT to assist in the aggregation of internal supplier data, specifically with a view to supporting these negotiations.

Bringing data to the negotiating table: challenges

- Supplier data may sit in siloes with the organisation, making it harder to build a holistic picture of relationships. Sensitive information may be withheld, leading to different perceptions of supplier profitability within other siloes.
- Some more informal agreements with suppliers may only be booked in at year-end. Because this makes margins and overall profitability harder to predict, retailers will struggle to adjust in challenging environments.
- Ensuring the same level of analytical quality for A, B and C suppliers takes up valuable time, making already complex analyses even harder.

ARNT: harnessing data to deliver best-in-class supplier negotiations

A&M's ARNT is a modelling tool that allows data from different parts of the organisation to be analysed together, providing a holistic overview of each supplier relationship.

Using the ARNT, retailers can benchmark an array of vital supplier metrics, including:

- Category share performance over time (and performance distribution by SKU)
- Profitability by category and by time period, off-invoice and on-invoice
- Shelf space vs market share
- Customs duties and tariffs (for international partnerships)
- Promotional share and effectiveness
- Invoicing and EDI performance
- Late / non-delivery of goods

Granular data can be the ingredient that separates successful and unsuccessful negotiations. By assessing many different metrics together in one place and allowing for benchmarking against peers and competitors, ARNT gives retailers the ability to take a broad, big-picture view while being able to dig down into the detail. Rather than relying on gut instinct or on high-level analysis of general trends, data gives retailers an objective and honest understanding of supplier performance ahead of negotiations.

Greater ease of access to supplier data means that retailers can devote time to assessing all suppliers, not just key strategic partners. Currently, retailers are being forced to prioritise larger supplier relationships due to the time required to gather granular data, but this does not have to be the case. ARNT can help teams increase the number of professionally prepared negotiation presentations by up to 50%. These efficiencies allow retailers to focus on all branded suppliers, whether they are highly significant or less mission-critical.

Better use of data is important, but retailers also need results quickly. E-procurement software can enable in-depth supplier analytics but integrating these platforms can take years. With COVID-19 creating extraordinary uncertainty in markets, retailers cannot afford to rely on solutions coming years down the line. Bespoke integration and implementation of ARNT takes around three months

and can deliver 30-40% reductions in lead time for preparing negotiations. This gives retailers access to vital supplier data faster, potentially buying executives time to steer their organisations through choppy waters.

Out-of-the-box solutions rarely take account of all the relevant variables in detailed negotiations. A&M's practitioners work closely with client stakeholders to determine the vital metrics and building blocks for each retailer's tool. Once a project is complete, ownership of the process is transferred to the client team, enabling ARNT to sit at the heart of the category management toolkit for different retailers.

In markets around the world, the critical work of retailers has proven the importance of reliably functioning supply chains. A&M's retail specialists are using ARNT to deliver more transparency and better data integrity within retail procurement organisations, driving meaningful P&L improvements.

A&M: Leadership. Action. Results.

The ARNT leverages A&M's decades of retail experience and expertise in providing guidance to retailers targeting operational and COGS efficiencies. Being able to establish strong supplier partnerships will be fundamental to retailers' health over the long term, and A&M is proud to work with innovative retailers in undertaking well-executed negotiations that bring value to all stakeholders.

A&M has extensive experience helping retailers manage third-party relationships and deliver best-in-class supplier terms in challenging environments.

To learn more about our work with retailers throughout EMEA, get in touch with our key contacts.

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