

Sourcing Innovation Insights

Innovation '15
Top Takeaways

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Introduction

What do you get when you bring together the top procurement and sourcing professionals at some of the largest and most successful retail, grocery, restaurant and food companies across North America?

Smart, creative and time-tested ideas and strategies for driving sourcing innovation and creating measurable and lasting business value through procurement.

Innovation 2015 – Intesource's annual sourcing best practices conference -- included business leaders from top companies such as Rite Aid, Wegmans Food Markets, The Container Store and Meijer, along with industry thought leaders from The Nielson Group, Spend Matters, The Ferrari Consulting & Research Group and Lunney Advisory Group.

Whether you missed the conference or attended and are looking for a quick refresher, here are the top takeaways coming out of Innovation 2015.

Converging Mega Trends are Impacting the Supply Chain and Economic Markets

According to supply chain consultant Bob Ferrari – the Managing Director at Ferrari Consulting Group and Editor at Supply Chain Matters – there’s a convergence of extreme market forces impacting the global supply chain, and it’s up to procurement leaders to ensure their organizations are aware of these forces and prepared to leverage them to create positive business outcomes.

What are the top mega-trends and converging forces?

1. Empowered consumers are rapidly changing business and industry environments and forcing organizations to change how they manufacture, source, market and sell goods and services. Affordability remains important, but today’s consumers also want quality, responsibly-sourced items, visibility into the supply chain and more niche options and choices.
2. Today’s procurement organizations and processes are converging with significant advances in technology – a dynamic that both challenges and empowers procurement and sourcing teams to create more business value, and find new ways to innovative.
3. The skills necessary for success in today’s market are evolving and advancing, leaving many CPOs and CFOs afraid that their teams will experience a major talent gap that could impact long-term success.
4. There’s an unprecedented amount of risk in today’s global supply chain. And while most of the risk, as always, remains highly unpredictable, the impact of supply disruptions are directly hurting companies’ bottom lines worse than ever before.

Smart Data and Mobile: A Game Changer for Procurement

The amount of data that consumers and organizations have at their disposal continues to explode. In fact, every day, we create 2.5 quintillion bytes of data, with almost 90% of the world's data having been created in the last four years.

Most procurement and sourcing teams, however, don't have the means to make big data actionable.

The supply management winners of tomorrow will be able to easily and instantly process and analyze large volumes of data that enable real-time business decisions, and take full advantage of mobile, social and the cloud. The result will be faster, smarter decisions that improve quality, reduce risk, increase time to market and allow companies to adapt to changing consumer expectations and demands more easily.

What does this look like in the supply chain?

How about a micro-chip installed on food labels that can automatically alert food manufacturers or retailers when a product crosses a key temperature threshold, thus impacting the product's quality and safety? Or how about real-time financial and risk analytics that can predict (and alert companies) when a key supplier is in trouble?

The bottom line: big data, mobile and predictive analytics are a game changer for procurement, and how companies leverage them will be a major differentiator between the procurement leaders and laggards of tomorrow.

The Supply Chain Matters

To put it simply: the boardroom and c-suite are finally paying attention to procurement and sourcing.

Over the past couple of years, there's been a substantial increase in management-level awareness around the critical importance that procurement plays in a business's financial and strategic performance.

While the added attention and long-awaited recognition are terrific for both the industry and practitioners, they also raise performance expectations.

The presenters at Innovation analyzed a number of industry reports and C-level polling studies to uncover what management-level executives are looking for most. Several strategic items stood out:

1. Procurement strategies need to generate revenue and create a competitive advantage
2. The supply chain needs to be a value creator
3. More effectively and quickly anticipating customer and market needs through smart data, analytics and advanced technology is a top priority
4. Finding new ways to innovate and collaborate – with suppliers, stakeholders and more -- is crucial for long-term success

The Retail, Grocery and Restaurant Markets are Experiencing Rapid and Substantial Change

Today's consumers are extremely focused on quality, responsible sourcing and sustainability. There's also a growing anti-chain sentiment, with more new, local and ethnic disruptors gaining a larger share of the market.

Retail Insights thought leader Todd Hale shared several eye-opening insights on where the market is heading. Here are a few highlights:

1. Out of the top 100 retailers, Amazon recently became the first pure-play e-retailer to crash the top 10.
2. The share of U.S. food expenditures away-from-home is at its highest point ever. Overall, the market of at-home versus away-from-home food expenditures is nearly 50-50.
3. Looking at the retail landscape, value and convenience stores are rapidly growing. Comparing mass merchandisers in 2014 to 2013, convenience stores grew the fastest – adding more than 152,000 stores. Following in second and third were drug and supermarket stores, with 72 percent of the supermarket growth coming from niche formats.
4. Publically-traded grocery chains are posting solid same-store-sales growth. In terms of consumer demand, there's a growing hunger for natural and gourmet offerings, and low-price stores. Trader Joe's, Whole Foods, Sprouts and Fresh Markets (natural and gourmet) and Save-a-Lot and Aldi (low-cost) experienced impressive new store growth in 2014.
5. The restaurant real-estate market is exploding. Since 2009, nearly 28,000 new on-premise restaurant locations have entered the market. Today, the total number stands at nearly 208,000.
6. The largest restaurant growth areas – in terms of food-type offering – is American, Mexican, Pizza and then Japanese and Sushi.
7. In terms of overall consumer demand, the categories with the largest absolute dollar gain versus four years ago were salty snacks, new-age beverages, beer and malt based beverages, candy and coffee. On the opposite end, the largest losses were seen by prerecorded video products, computer software, magazines and photographic supplies.

Keys for Driving Growth in Today's Dynamic Market

So how should retailers, grocers and restaurants respond to today's ever-changing environment? Hale outlined five crucial strategies:

1. Stay connected with the most profitable retail locations and categories, and prioritize your sourcing and marketing decisions accordingly. Sometimes, downsizing can help manage profits in a rising-cost environment, but those decisions must be based on data, consumer demand and category sentiment and profitability – and can't be made in a vacuum.
2. Invest in effectively engaging consumers in e-commerce for digital shopping.
3. Win business and sales through precision and context-based marketing. Do you know who your most valuable customers are, and how and when to reach them most effectively? Innovations in customer intelligence, big data, mobile and predictive analytics enable retailers and chains to be more precise – and effective – with their sales and marketing programs.
4. Continue to ride the health and wellness growth wave.
5. Ensure you're always positioned to win the occasion (like Valentine's Day or Christmas).

It's Time to Reimagine the In-Store Grocery and Retail Experience

According to Hale, the center-store experience has remained relatively unchanged for years, and it's time to start innovating.

Several grocers are now serving up in-store restaurants and meals. Two good examples are Wegmans and Whole Foods. Another one: Hy-Vee Market Grille, which opened in 2012, is planning to open 75 more stores by 2016.

Other grocery and retail stores have also experimented by opening bars at the center of their stores. The point isn't necessarily to generate sales (although that's always an added bonus), but rather to differentiate from competitors and offer a better customer experience.

Many grocers are seeing success shaking up the aisle by providing everything a shopper needs for a specific meal – like BLTs or Fajitas – in one, central location at the end of the aisle. This can lead to more impulse buying, and make shopping and meal-planning easier on the customer.

Regardless of where grocers try to innovate, Hale's message was clear: It's time to start investing in capital expenditures that create differentiation and improve the customer experience.

Be Open with Your Suppliers

Supplier collaboration is nothing new – at Intesource, we’ve been talking about it for years.

But with more pressure on procurement and sourcing professionals to generate revenue and add more business value, it’s a crucial reminder: If you’re not collaborating and being open with your suppliers, you are doing it wrong – and likely leaving substantial business value on the table.

Industry thought leader Soheila Lunney says that organizations need to see the big picture: when it comes to sourcing transformations, focusing just on price in supplier negotiations won’t cut it.

The best way for procurement to generate revenue and create value, according to Lunney, is to be open with suppliers. She recommends regularly connecting with suppliers and asking them open-ended questions such as:

1. What are other customers doing that we are not?
2. Which aspects of our agreement are most costly to your business, and are there any cost-effective alternatives?
3. If you could change anything about the way we are currently sourcing with you, what would it be?

The bottom line: the best-performing companies enable their suppliers to create and innovate on their behalf, and don’t make assumptions about what partners can and can’t do. They investigate, collaborate and innovate together.

Supplier Relationship Management (SRM) is Coming

The biggest news from Innovation was the announcement of the upcoming launch of Intesource's first Supplier Relationship Management (SRM) platform.

The new platform – which will be available later this year – will act as a central supplier repository that helps organizations improve visibility, cleanse data, create efficiencies and reduce risk.

SRM will make managing suppliers incredibly easy. The solution, which will integrate with Intesource's e-sourcing and contract management platform, allows companies to find and research new suppliers, improve the accuracy of supplier information, stay informed on supplier innovations and to ensure that compliance levels – like diversity, insurance levels, certifications, NDAs, etc. – are met.

Potentially most important, the system leverages third party risk data to ensure that your business can stay on top of possible financial and legal risk indicators, and proactively manage and respond to supply disruptions.

Intesource is currently accepting customers interested in beta-testing the product. The full launch will be later this year.

E-Sourcing Delivers

Whether you're trying to generate more value from your supply base, contain costs, reduce risk, become more efficient or build your base of suppliers, e-sourcing delivers.

The conference was filled with stories from customers – both old and new, and in every industry – on how e-sourcing has helped their organization improve sourcing and procurement performance. From the most events run in a single year to the most value generated in a single category, the wins and best practices were flowing and celebrated – in every session and at every event.

Procurement Transformation is a Process

Successful procurement transformations don't happen overnight. It's a process that takes a lot of time, planning and strategy.

According to Lunney, all successful transformations require five things:

1. That they are designed holistically
2. Alignment with organizational goals
3. A strict budget and timeline
4. That they satisfy key stakeholders and customer needs
5. A robust, well-planned change-management roadmap – which includes executive-level support, an implementation plan and a dedicated project manager.

Skill and talent development also play a key role. Before beginning any transformation project, ask yourself if you have the right team, for today and the future. Then assess the skills and resources you have at your disposal right now, and how they need to be improved to meet future business goals.

Take the Next Step

Conferences like Innovation provide a terrific opportunity for practitioners and business leaders to collaborate with peers, network and develop the skills and knowledge necessary to succeed in today's business environment.

But just because the conference has ended, that doesn't mean the learning should stop!

1. Continue the conversation and networking with your peers by [joining Intesource's new LinkedIn group](#).
2. Stay up to date on best practices and industry news by reading our blog, [e-Sourcing Society](#).
3. And for an early look at Intesource's new SRM solution, [contact the Intesource team today](#).



About Intesource

Companies are caught between two opposing goals: drive cost savings or invest in innovation. Both require people, technology, and expertise in a time when resources – and the skills and time required to source effectively – are scarce.

Intesource eliminates operational headaches from the sourcing equation by offering the industry's only enterprise wide, unlimited, full-service e-sourcing package. Intesource's turnkey approach to e-sourcing consistently drives double-digit savings without requiring additional staff or process overhauls – an approach that saves valuable time and frees up staff to focus on strategic initiatives.

With a history of success in the most challenging sourcing climates, and expertise in both direct and indirect categories, Intesource ensures that buyers are getting the best value every single time. Learn more at www.Intesource.com.

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