



# It takes two to innovate

Retailers and suppliers that develop true innovation-focused private brand partnerships could reap numerous rewards.

By Kathie Canning

**M**uch has been said in recent years about the need for true retailer-supplier partnerships for the store brand market to realize true innovation. Still, such partnerships remain the exception instead of the norm.

Noting that advantages often are “measured in very small increments” within the store brand industry, Steve Fay, executive vice president with Berner Food & Beverage, Dakota, Ill., believes that retailers are hesitant to bring suppliers into their internal processes for competitive reasons.

“I believe there is also the thought that too much involvement with a supplier may break down their ultimate negotiating position for price and support,” he says. “In other words, and probably accurately so, retailers view suppliers as adversaries. So the question is how to bridge two parties that on other levels are adversarial to a point of collaboration.”

## Other obstacles

That adversarial view isn't the only stumbling

block. The traditional procurement mindset many retailer own-brand decision-makers still have also is an obstacle to collaboration, notes Todd Maute, a partner with New York-based branding agency CBX. And a couple of external factors come into play here as well.

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“The economy is not that great; value is still very important,” he notes. “So when those types of things happen, I think people tend to focus more on price and value than they do on innovation and growth.”

Even when a retailer begins a push toward





innovation, that push doesn't necessarily involve the supplier until it's time for production.

"Often the retailer does the brainstorming at a higher level than the buying team and sends the goal down," notes Teri Valentine, president and CEO of The Perfect Bite Co. Inc., Glendale, Calif. "We arrive to 'innovate,' and all the flavors and specs are decided — we like to be in on the development using our expertise and selling experience."

Obstacles can be found on the supplier side as well.

"Most are focused on their core business, which is 'How do I keep the core engine running 24 hours a day, as efficiently as possible, to keep my costs and margins where they need to be?' And historically, and I think notoriously, private label manufacturers haven't really been seen as innovators," Maute says.

developed packaging for programs that did not do well and had to write off large inventories. Suppliers simply have to go in with their eyes wide open knowing the challenges."

It takes time to build that trust, Valentine adds.

"Once a list of winners [is] developed together, the relationship evolves," she says.

### Partnerships reap rewards

Retailers and suppliers that focus on overcoming the obstacles, however, will be able to develop successful innovation-focused private brand partnerships. And those partnerships can result in numerous rewards for both parties.

"Forming a lasting partnership requires both parties to look at the long term and to create win-win situations rather than focus on any individual transaction," explains Stefani LiDestri, president-elect and chief sales and

marketing officer for LiDestri Food & Beverage, Fairport, N.Y.

She adds that LiDestri Food & Beverage boasts some partnerships that have been in place for more than 30 years.

"There are tremendous advantages in harnessing the power of partnerships, including the stability, service and loyalty that come with them," LiDestri says.

One of the ways LiDestri Food & Beverage has managed to build great partnerships with both retailers and national brands is by getting "deeply involved" in those companies' innovation and research and development processes, LiDestri notes.

"It's one thing to take a formula and transform it into a product," she

says. "It's quite another thing — a very valuable thing — to help execute an idea from the market research and formulation stage."

In 2014, LiDestri Food & Beverage opened its Innovation Center, which LiDestri says has been described as "a playground for research and development." The center already has served as the launch pad for a number of products that went on to become a success.

"When we as contract manufacturers are involved from square one ... that kind of partnership adds tremendous value," she maintains, adding that her company recently worked with Rochester, N.Y.-based Wegmans Food Markets Inc. — a long-time retail partner — to develop the Jammin' line of low-sugar fruit



▲ LiDestri Food & Beverage partnered with Wegmans Food Markets to create an innovative fruit spread.

Many private label suppliers, therefore, possess neither the infrastructure nor the mindset needed for true innovation, he says.

For suppliers that do have the right infrastructure and mindset, oftentimes it becomes an issue of scale, Maute adds. Investing in innovation for a relatively small retailer might not make a lot of sense in terms of the return on that investment (especially if the retailer is not sharing in those costs).

And a lack of trust — and true sharing of the risk — can be a challenge, too.

"I have experienced doing development work for a retailer only to have them bid the program out after we had invested a good deal of money into the development," Fay points out. "We have

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spreads under the Wegmans Organic Food You Feel Good About brand.

To get to the collaborative level LiDestri discusses, many suppliers and retailers will have to rethink some standard practices.

Private label suppliers, for example, might want to stop shielding costs from potential retailer-partners. In Fay's view, such a practice is not productive, as "any reasonably intelligent person" generally can figure out the approximate cost of packaging, commodities and other supplier resources.

"If retailers would enter into an agreement at the onset of a project where they would be willing to allow a profitable cost-plus program to evolve from the project and to split cleanup costs if the program failed, [it] would probably [encourage] a lot more suppliers to jump onboard," he adds. "I also believe non-disclosure agreements with suppliers would be helpful."

Valentine agrees.

"[Get] confidentiality agreements signed, and let everyone work together towards the goals of each retailer," she says. "As suppliers, we are a 'free' research and development arm available to each retailer; we profit when we all profit as business partners."

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When it comes down to it, successful retailer-supplier private brand partnerships really require a different approach to the business model — one that takes the shape of a joint venture or a strategic alliance, Maute says.

"The value that I think a strategic alliance has between a retailer and a manufacturer [is] they both have very different skill sets," he says. "The retailer supplies, hopefully, marketing support, distribution, consumer insights and knowledge, while the manufacturer has the manufacturing capabilities, the category expertise and, hopefully, knowledge of the supply chain. So if the two were to strategically align and potentially share in the risk as well as the investment, you can probably get economies of scale and quicker market penetration."

To take the relationship even a step farther, that alliance could involve joint ownership of the intellectual property, says Paul Schwada, managing partner of Chicago-based Locomotive Solutions LLC.

"Whoever owns the intellectual property really owns the product," he points out. "If the supplier and the retailer are really looking for a true partnership, and they're actually willing to share intellectual property, that is the most permanent form of bond that I can think of." **SB**