Supply Chain's Christmas Checklist

Strategies for Volatile Supply Chains

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Introduction

From merchandising and demand to warehouse and logistics, factories are gearing up for the December holidays. We will start with what happens in July and August, knowing from a process perspective that we should start with Demand. However, it seems more interesting to think about what is happening ‘right now’ (or any other time there are volatile conditions).

This document is designed to provide an across-supply-chain ‘checklist’ of practices and actionable suggestions to tune your supply chain for better performance, no matter what the season.¹

¹ There are many references to articles and reports included for further reading.
The Factory

Summer may be the vacation time for many in North America and the EU, but factories making electronics and consumer products are working around the clock for the busy seasons to come—from fall merchandise and back-to-school (a global schedule) all the way through the big-gifting December. Although we like to talk about Just-in-Time and demand-driven (a relative term, anyway), in fact, for consumer electronics, games, apparel, toys and so many other products, ‘The Season’ is approaching rapidly.

The volatile economy and new focus on geo-risks are changing the way many companies procure products.

Examples:

- **Financing**—long purchasing and payment schedules are gone. 30-day payment schedules (or shorter) are in. And an interesting factoid I have heard from many smaller manufacturers is that many of the supply chain members are not connected electronically. So there is little-to-no room to move—in other words, that 30-day payment schedule is eaten up by delayed receiving and snail-mail payments. From auto to pharma to consumer supply chains, the tight cash situation is having an impact on inventory management strategies and supply chain agility.

- **Currency**—pay me in US dollars, please. With fear about EU valuations and stability, the US dollar is looking like the safest place to be.

- **Compliance**—globally we have seen a huge increase in regulations. But in the smaller factories, many manufacturers have not been able to implement much. Instead, they have packaging and logistics companies do a lot of the compliance work for them. However, the better the factory implements EDI, labeling, ticketing, and traceability, the better prepared they are to compete in the global economy. Larger firms have been chipping away at these issues as they arise.

- **Inventory staging**—Vendor Managed Inventory, Consignment, and other hedging strategies are hot topics now, due to the above issues. Demand uncertainty due to economic volatility leaves retailers in doubt about how much they will actually sell. The lower-tier factories will not retain inventory—that is on the boat. And factory orders may be inadequate to meet rapid upswings if demand improves. The issue for manufacturers is the need to get their house in order regarding planning methods and risk strategies for up- or down-side demand.

- **Increase in transportation costs**—added to the issues associated with volatility are the recent rate increases by carriers. So if you don’t get the model right, you will pay multiple times for shipping costs.
Supply Chain's Christmas Checklist

The Factory Checklist:

1. Use more nuanced risk strategies to rethink product methods.

2. Implement compliance technologies—EDI can be had inexpensively. Mobile warehouse, bar-coding and RFID services should be part of the service you or your partners provide to build channel and customer loyalty. Cloud and managed services can help you gain these capabilities.

3. Develop market awareness programs and systems. Though you may be way back in the supply chain, your knowledge of the end-markets will make you better prepared for demand variability, as well as a better competitor in the market. Demand management for manufacturers requires different skills than consumer-oriented demand techniques, but you should understand them.

4. Implement collaborative systems. Better system-to-system and people-to-people technology plus integration with trading partners cements the relationships and keeps you aware of the market and supply chain events.

Supply Management

Many strides have been made in supplier management in the last decade due to the web. But there still is much to improve. Fair pricing, transparency in processes, compliance, and risk management will remain priorities for professionals involved in sourcing and procurement. Volatility and high-demand seasons require a sharp focus on terms and flexible relationships—not just on price.

The Supply-Management Checklist:

1. Take a look at your terms and conditions with your critical suppliers. There may be different terms that can net better working capital and efficiencies leading to more profit for both of you.

2. Take a total sourcing cost view of the supply management process. Price savings in one area may actually lead to cost increases in others. Low-cost country sourcing, for example, with high insurance and transportation costs and longer lead times may not be the answer for many product lines.

3. Take a refreshed view of your spend management and analytics. Hidden savings abound.

4. Risk management should become part of the solid cross-functional process to ensure continuity and quality.
The Warehouse

As the temperature rises to 97 degrees outside and over 100 degrees inside, the warehouse fills to capacity. As companies contemplate inventory purchases, they need to sift through information on the state of the supply chain as it stands ready for the increase in consumer spending. Forecasting weather (a shaky topic at best) and other risks that drive up inventory holding positions, logistics speed and costs, customer demand variability, and surge-real-estate capacity as required should be underway in preparing for this most busy season.

The Warehouse Checklist:

1. Warehouse space:
   - Negotiate overflow warehouse space. The old way was to pay for warehouse space whether it was used or not; many warehouses sit empty much of the year. The new way is hedge contracts with warehouse companies.
   - More nuanced approaches can include flexible warehouse approaches to support multi-channel strategies: 3PLs that are paid variable service rates; and seasonal fulfillment agreements for direct ship, which work especially well with web items or large items such as TVs and computers, or configurable items. The 3PL can provide configuration services. (Read the Flexible Warehouse article by Bill McBeath.)

2. Rethink your warehouse design:
   - Most warehouse managers are still not using space well. Rethink the flow, the design, etc. (Read our article about better warehouse design.)
   - Larger organizations often mete out services based on customer and channel. However, you may be missing efficiencies if you don’t use more advanced processes across your entire business and with your customers (regardless who pays for the service).
   - Avoiding the holiday crunch can be done by improving demand clarity (as in this Santa’s Workshop cartoon), but for most consumer-goods companies it is the warehouse that is the key strategy.
   - Manage the warehouse well and you can save money and significantly increase sales.

3. Update your WMS:
   - Technology solutions such as mobile warehouse solutions and automation, WMS, and locating systems can be implemented to make the warehouse more flexible.
   - WMS automation not only makes you more efficient, but also allows you to create and charge for services that support manufacturers and distributors.
   - New cloud WMS can be implemented with less upfront investment and technology know-how, leaving you free to focus on operations.
   - We will be updating our warehouse report to include these solutions for you very soon.²

² WMS 2012 (If you are a WMS solutions provider and have not received an invitation to be included in our WMS research report, please contact us right away to be included).
Transportation and the Logistics Network

A growing, yet challenging, element of supply chain, transportation is the essential glue of global trade. And with many companies facing rate increases, looking at solutions and services in new ways is critical. Energy pricing, demand, and capacity vary from year to year. And shippers and customers want a lot more visibility during the often long journey to the store (or direct to the home).

The Transportation Checklist:

1. Give the TMS providers a new look—many more services are included in what they do now.

   - Redesign is a critical exercise. Many distribution strategies do not consider the right placement and levels of inventory, which is an oversight, because the wrong inventory in the wrong staging locations can be very costly. So re-address your network optimization strategies.
   - Optimization strategies today should consider not only the transportation network under your view, but also how your carrier plans to move your goods.

3. Global Sourcing
   - The Logistics network today extends across the supply chain. Rethinking how you source transportation services and how you link them with other supply chain activities such as product sourcing and procurement is critical to efficiency.

4. Take a look at your carrier spend and contracts. With prices rising (again), you may be headed for some losses if you don’t have a great relationship and price in place.

Pricing and Promotions

Consumer goods and electronics supply chains have some of the most volatile pricing—they are sensitive on both sides—supply costs on the one hand, and consumer demand on the other. And within the supply chain, there are the methods and trade promotions (TPM) used to enhance the brand and secure shelf space to draw shoppers. This is one of the most dynamic and changing areas due to social networking and mobile shopping. Pricing, Mobile, Social, and TPM all need to be on your checklist.

Promotions account for about a 10% to 20% lift in sales. Yet the cost of creating them is increasing, with up to 50% of marketing expense coming from the manufacturer. Somewhere in those stats is your company. Are you one of the companies with low marketing expense and high lift, or are you the one with the 50% marketing expense and small lift? Our research showed that in tier-one companies, 25% of
all promotions fail to achieve their goals. And in SMBs the statistics grow to 84%. But we also learned that most companies actually don’t know if these TPM investments even work, since there are no real systems to track them. In addition, the attitude of many manufacturers is that retailers extract these fees for no subsequent service, such as the actual execution of the promotion (advertising, displays).

In spite of these issues, the practice of trade promotions will increase. (So we might as well learn to do it well.) Companies that are clever about managing promotions are seeing a return on their investments in terms of increases in market and margins, sales, customer loyalty, and price (that’s right, increase in prices). Precision in practices can ensure that marketing programs are targeted to the right audiences to achieve growth.

The Pricing and Promotions Checklist:

1. Make it a Process
   - Create market segmentation information—most companies have few or outdated customer segmentation definitions.
   - Target promotions to the most profitable and active segments. The goal of a promotion is to create business—a mark down is not a promotion!
   - Design the promotion to encourage consumer opt-in, and then design your website to ensure continued interest and value for the consumer.
   - Use this direct consumer engagement to enhance your segmentation information, your product and promotion design, and maybe even identify which channels you do business with.
   - Create tailored programs for special channels and retailers. This not only prevents cannibalization across your channels, but can fend off potential private label brands from encroaching on your ‘real estate’ at that retailer.
   - Create a cross-functional pricing team, from manufacturing through the promotional settlement people. What is the right and sustainable market price?
   - Integrate pricing, market segmentation and promotional activities to ensure that all these activities are holistic and support the unified goal—increased sales, increased profit.
   - Evaluate the success of each and every promotion. What did we learn? How can we do better?
   - Make sure to include these in the Sales and Operations Planning process. Don’t blind-side others in the enterprise about the programs and progress of these events.³

2. Automate It
   The scale of these activities is just too broad and too deep (detailed) to manage without a system. And spreadsheets, though useful, don’t connect the community—from the manufacturer through the channel—to monitor the process. (Spreadsheets can’t tell you about the end-customers, either.) Settlement is a huge value ‘eroder’—if you don’t have systems to track your shipments, you can end up giving huge concessions back to the retailer.

³ Six Steps to get your S&OP in High Gear
So much information falls through the cracks that companies are mostly guessing about what is working—and we include profit, not just lift, as a mark of success. It seems that with so much money at stake, investing in solutions and process improvements would be a small investment with some truly important returns.

3. Make it Mobile and Social

Today’s consumer is on the web and on the smart phone to locate and learn about products: where they can find them and what they should pay. Engaging in your customer’s mode of access is critical if you want to be top-most when the customer is searching and shopping. (More below on social.)

4. Organize Price for Profit

“The whole reason that sales and marketing departments exist is to accentuate differentiation, escape commodity price pressure, and create profitable deals,” says Dave Taber of David Taber +Associates. (So promotions should have some brains, yes?)

But at the core of the game is pricing, which is generally an abysmal effort, lacking process and structure. Today’s pricing is really costing and negotiation in most companies. It’s not that marketing does not attempt to determine a market price, but many companies lack consistent analyses of customer segments before matching products and value to that segment and deriving the price. Most often, of course, the mechanism becomes mapping competitors or sitting with channel partners/retailers to set an item’s price. Once the product leaves the manufacturer’s shipping dock, price is no longer under their control.

We recommend rethinking how you integrate the various processes in order to gain a clearer understanding of pricing (see Figure 1). Aligning efforts can make a significant difference in understanding your markets and creating pricing consistent with your brand and corporate performance goals.
Social Networking

Tweets and tubes are interesting, but they are not particularly effective in creating commerce. Although virtually every company has a ‘follow me’ button on their home page, actively engaging the customer is critical since there is so much competition. The challenge is to get social engagement working for you in order to understand your customer base in a much richer way and engage them to create interest, gain information, increase sales, and, hopefully, achieve customer lifetime loyalty.

Social Networking Checklist:

1. Socialize—a social network is not a website. Yet many companies behave as if it were just that. They create a page and push advertising. Instead, start a dialogue, learn, and act on the inputs.

2. Create special social-only opportunities—what’s the point of being part of a social network vs. doing an email push? Although the latter is very effective at pushing promotions, it’s one-way. What do you need your ‘friends’ to do for you? Get focused on a creative strategy to mobilize your loyal customers in new ways.

3. Analytics engine—mine the data to feed demand and product systems as well as stay on top of issues such as reputation, customer care and new ideas that might emerge from the friends and followers in your social network.4

Mobility and Location-based Services

Mobile is here—so learn to use it well. Your digital movements are part of the public record, more or less. And many consumers grant permission to collect location and other data in order to gain access to location-based services or information about products, services, events and promotions. Where is the closest Starbucks? I am not feeling well; I wonder if there is a Doc-in-a-Box nearby? Where is there a good place to get a veggie pizza?

From the provider’s side, mobile data is highly valuable: it will be the ultimate source of data to create new customer and constituent models. Mobile data is highly valuable because it elicits a dynamic response from people on the go. Where they are located now can feed a real-time-capability execution system—and signal for more buses, food, or a real-time promotion to bring people into your establishment. (Dense populations on the move after a public event can be a source of business.)

4 More on this in Social Networking Stage 2 coming this summer.
The point is that engaging the constituents in the way they want to be engaged—multi-channel engagement if you will—will generally produce richer data that can be used to expand your business model insights to improve your services and products.

It might be five golden rings for retailers that are using a variety of mobile methods to connect with customers—QR, LBS, RFID, NFC and Mobile Scanning. Crowds, swarms, phones, location-based ‘attractors,’ mobile searching, collaborating, shopping, and advertising are on the rise. But enterprise will need to sort through all this data to determine what techniques are best, based on their customer preferences and use cases.

People are not just checking out stores and promo codes; they are transacting. So this is not just a search and advertising channel but a serious technology for B2B and B2C. Channel upon channel, opportunity exists here to get product, price and promotion-related information through mobile networks, phone apps, content providers and social networks.

**The Mobile, LBS and Auto-ID Checklist:**

Though the full use of these technologies is somewhat experimental in some enterprises, the technology is not.

1. Start your pilot. There are a lot of interesting and competing alternatives for connectivity to customers and operations with mobile. (We will host an RFID SIG event in Boston in September with MIT, VICS, Tyco, Motorola and the hot mobile companies in this space such as Mobean and Scanbuy.)
2. Leverage third-party solutions to provide location-based services (LBS) visibility, promotions and analytics.
3. Understand which methods and channels are most effective. But don’t stop there, since there are dynamic methods, and technology and service providers who may be hot this year, but not the next.

**Analytics and Reasoning**

Part of the challenge is pulling all this data together in a construct that can be analyzed. Users are virtually buried in data—from traditional CRM systems, as well as website marketing automation systems and now social networking and mobile data.

**Analytics Checklist:**

1. Data constructs and models need to be rethought. We probably need new ways to understand and identify customers. New product lines will always be added to the data model. And there are media components to model—voice, video, graphics and sensor data—and add to your database.
2. Do we need new tool sets and updated analytics engines to build and mine data? Probably, since the old versions of the BI products may not have included Big Data, social, mobile and media data.
3. Move from history to insights. The power of analytics will be in learning new information. The predictive insights can be especially helpful in high risk and volatile markets.
Demand and Merchandising

Always listed as the biggest challenge for Demand Management is planning for big events—new product introductions or high-purchasing seasons.

With increasing competition and price volatility, simply getting the correct quantities on the shelves is insufficient. Will you make money now and in the future? Demand really needs to look at all the components we discussed above: Who is the customer? What is the right channel to find them? What is the right price point—fair and yet profitable for us? How can I maximize my turns and keep my logistics costs down?

Good demand management is the key to addressing the above. Success here is about chipping away the layers—it won’t happen in one pass with a new system.

The Demand Management Checklist:

1. Assess your forecasting methods—you might be using the wrong patterns and math. Collaborate across the supply chain with trading partners. Gaining customer insights with a partner who is close to customers trumps most other methods.

2. Rethink the merchandise strategy based on better customer and competitive data.

Conclusion—I Can’t Do It All

Amazingly, large and small companies often face the same issues. But insight into what makes your market tick can help you prioritize your investments to improve business planning and operations.

Learn to love data. For high SKU-count businesses, or long lead time and complex chains, the profit is in the numbers. A grudging attitude towards data management will not work in your favor. Those who see good data and systems as their advantage perform better.

Attend the RFID SIG event September 24th hosted by ChainLink and MIT with VICS.