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Supply Chain Trends Impacting the Consumer Products Industry

"Five trends to help companies maintain their edge"

People matter, results count.

In the Consumer Products industry, the "supply chain of the future" once looked an awful lot like the current supply chain. Change was gradual and incremental. But the pace of change today demands a more proactive and aggressive approach to future logistics planning. Market and competitive forces are completely reshaping how supply chains will operate in the future. At the same time, companies are leaning hard on their logistics leaders to drive competitive advantage through innovation and efficient execution.

Are you ready?

Consumer Products companies that fail to understand and plan for coming trends may find themselves one day scrambling to play catch-up with competitors. This paper looks at five trends that will likely impact your logistics operations in the future. It's wise to understand these trends and consider the actions you can take now to make your future supply chain a platform for competitive advantage.

1. Big Data and Supply Chain Visibility: Gaining Operational Insight

The use of Big Data to develop a collaborative supply chain is imperative for Consumer Products companies to remain competitive in the future. Today, there is an ever increasing volume of data to analyze and turn into a practical go-forward plan. However, the focus for many shippers is on silo data, which points to the need for a better understanding of supply chain visibility or analytical tools that drive impactful cost/benefit solutions. For example, a Consumer Products company may develop a packaging strategy that results in a significant reduction in material cost, but an increase in product damage is experienced due to the use of a thinner corrugate.

The use of a Supply Chain Control Tower and Big Data is not a new concept but a continuation by companies to leverage, process, and analyze data to gain further insight into their operations. A Supply Chain Control Tower can be defined as a central hub with the required technology, organization, and processes to capture and use Big Data to provide enhanced visibility for short- and long-term decision-making that is aligned with strategic objectives. Managing data from different sources through a Supply Chain Control Tower is a requirement that a Consumer Products company must consider.

Big Data can improve visibility throughout the supply chain while effectively reducing operating costs. Examples include real-time delivery management and forecasting, improved order fulfillment, and better vendor management. The tracking and tracing of goods has improved over the years. Big Data further enables the real-time tracking that analyzes weather, traffic, and location data feeds to determine exact delivery times. This is especially helpful when shipping products with a short shelf life. Minimal changes are required during implementation because the focus of work is centered on integrating different data feeds. Similarly, real-time forecasting information can remove any surprises or additional costs.

Order fulfillment can be a labor-intensive process. Companies use a variety of material-handling systems to fulfill orders. Big Data solutions allow data from different sources – such as orders, product inventory, facility layout and design -- and historical productivity information to be analyzed together to improve the overall fulfillment process. This results in minimal impacts to warehouse or distribution center operations.

The majority of Consumer Products companies work with multiple vendors in their supply chain. These include 3PLs and transportation providers. Real-time information permits a company to review provider performance against a set of defined key performance indicators. Examples include vendor profitability, on-time service, and complaints. The metrics are tracked in real-time by integrating with vendor systems, financial inputs like cost of goods, and social network feeds. These real-time analytics solutions can allow the quality of service and business profitability to stay at desired levels without requiring any additional effort. Transportation providers and suppliers also benefit because they are aware of expected service levels.

We suggest two things Consumer Products companies can do in the next year to leverage Big Data:

- **Define supply chain metrics that can be embraced across functional groups –-** manufacturing, packaging, warehousing, and transportation. Otherwise we will continue to see incentive plans that reward silo thinking. The distribution director whose bonus is based on reducing warehousing costs is unlikely to add a location to his network if it also adds $1 million in inventory, facility, and handling costs – even if the strategy reduces transportation costs by $2 million.

- **Pick just one critical metric and do a deep dive.** Let's say it's finished goods to retail shelf cycle time. Examine every data point that impacts this metric and work across functional areas to extract the data from the relevant systems. See if a clear picture emerges about how and where to improve.

2. All-Channel Fulfillment: Giving consumers what they want, when they want it

Today, All-Channel Fulfillment gives the consumer the ability to shop anywhere and receive their product at a desired time. All-Channel Fulfillment can be defined as optimizing the supply chain's capabilities to simultaneously receive and process orders from multiple ordering channels and fulfill them from the source that provides a high level of consumer satisfaction and low cost to the retailer. This model for fulfillment is both customer- and cost-driven and, therefore, is the new de-facto standard for the retail supply chain.

Taking an integrated approach to All-Channel Fulfillment can help drive sales. For example, Capgemini's "Digital Shopper Relevancy" study indicated 56% of consumers would spend more money at a bricks-and-mortar store if they had used digital channels to research their products. In addition, 55% would spend more money with a particular retailer if products are available anytime via any channel.[1] The study also found that the Consumer Products industry ranked fourth out of five product categories regarding the use of digital channels to purchase goods online. Electronics, personal care, and fashion all ranked higher than Consumer Products. Home improvements purchases are mainly completed at a physical location.

Building a world-class All-Channel Fulfillment network requires a number of best-in-class solutions working together, and optimized both individually and together as a cohesive system. Implementing a successful solution requires optimizing inventory across the entire supply chain (vendors, distribution centers, and retail stores) in order to reduce lost sales due to stock outs, while also positioning inventory correctly to provide the lowest possible fulfillment cost per order. Achieving this optimization requires a set of systems working in concert, from inventory and planning to order management and through to supply chain execution. This type of integrated approach can help provide a consistent consumer experience across all available shopping channels, including mobile devices, internet, bricks and mortar, television, radio, direct mail, etc.

Transitioning to All-Channel Fulfillment can lead to consumers who are more informed about products and services and are thus more demanding. As a result, companies have to reformulate their supply chain strategies to match this change in consumer demand. Because consumers have the ability to shop at any time, organizations must determine what service requirements need to change. These include the ability to consolidate shipments due to smaller order quantities. The utilization of a 3PL company that specializes in small shipment consolidation is one way companies are handling digital ordering patterns. 3PL firms have the equipment and systems to effectively manage and consolidate small shipments.

In recent years, there has been increased attention on same-day deliveries. The concept is to provide nearly the same experience as buying a product in a physical store. As online growth increases, same-day delivery with free shipping is increasing as a viable option for online orders. For example, eBay is expanding its same-day service to an increasing number of major metropolitan areas in the United States.

In addition, Google Shopping Express recently announced same-day delivery service within certain locations. And Amazon Fresh offers same-day delivery with a yearly subscription fee. According to eMarketer, the Consumer Products sector is positioned for significant growth in online sales. Consumer Products online sales in the United States are expected to grow at a 25% compounded annual rate to $32 billion by 2015. However, the cost of shipping, premium prices, and the inability to accept orders after hours can impact the online shopping experience. In addition, some shoppers don't want their product shipped the same day due to scheduling conflicts or an unwillingness to pay any type of delivery fee. These are all issues that must be taken into account when developing a sound delivery strategy.

We suggest two things Consumer Products companies can do in the next year to improve their all-channel capabilities:

- **Ship retail eCommerce orders direct from the manufacturer's warehouse.** Manufacturers ship products to the retail customer's warehouse only to have the retailer's eCommerce orders ship directly to the consumer. Why not cut out this extra freight and handling and ship product direct to the consumer on behalf of the retailer? It's cheaper, greener, and so much smarter. Start small. Partner with a single retailer on a proof of concept.

- **Collaborate to zone skip.** For eCommerce orders shipping long distances, parcel companies benefit from charging long-distance rates for each shipment, even though the orders move in bulk to local stations for final delivery. Why can't shippers band together to zone skip and avoid these high parcel rates? Not a bad discussion question for social media.

[1] Digital Shopper Relevancy: Profiting from Your Customers' Desired All-Channel Experience," Capgemini, 2012, www.capgemini.com/DigitalShopperRelevancy

3. Sustainability: A Critical Component of Supply Chain Strategies

Several years ago, the idea of companies measuring and managing their impact on social and environmental issues was not a priority. But today attention to these topics, as well as related issues such as using reusable and recyclable material to reduce waste, is rising at a rapid pace. In fact, social, environmental, operational, and innovation excellence are increasingly part of business operations. Many companies are using sustainability as a competitive advantage to grow market share within their industry.

Sustainability is a critical component of a supply chain strategy because it aligns economic, social, and environmental interests. Companies have shown that there is a connection between sustainability and financial gains. This is achieved by analyzing their supply chain and identifying areas where operational improvements can produce profits. For example, cost improvements might be found by reducing the amount of packaging used to ship and store goods. In an attempt to reduce costs, the change in packaging may also complement a commitment to the environment. Additionally, grocery stores are able to charge a higher price on organic food because people are willing to pay a premium.

Sustainability can be a competitive advantage for many companies. A sustainable supply chain will enable companies to eliminate the need to dispose of harmful by-products, reducing obsolescence, decreasing the amount of money spent on scrap and related labor costs and regulatory issues.

In addition to sustainability issues, changes in social patterns related to healthier food choices require Consumers Products companies to ensure they are collaborating with all trading partners in the supply chain. Order frequency, packaging, and a different mix of product are all reasons why it is imperative companies share information on a collaborative basis. Barriers such as synchronizing information flows across various trading partners can still be a problem. However, an effective shipment consolidation program enables companies to send an increasing number of items through the supply chain without disrupting service.

Here are several things Consumer Products companies can do in the next year to improve their green profile:

- **Collaborate with like companies and competitors to co-locate inventory and co-load freight.** The fact is we have tens of thousands of parallel lines of supply moving to the same retailers. Instead of your own discrete infrastructure, become part of a shared distribution infrastructure that uses 3PLs to combine like freight at retail distribution campuses.

- **Move a portion of your freight from truck to rail.** Rail is four times more fuel efficient, reduces greenhouse gas emissions by 75%, and avoids future capacity constraints linked to truck driver shortages.

- **Create a global trailer interchange agreement.** OK, that's not something any of us can do in the next year, but we can accelerate the discussion. It's mind boggling to think of the inefficiencies, congestion, and pollution created by the back-and-forth movement of trailers in the supply chain. Shippers already share containers and pallet pools. Why not trailers?

4. Social Media: Improving Supply Chain Visibility

Trends in social media will continue to have a significant impact on Consumer Products companies as they manage their supply chains in 2013 and beyond. Nurturing new relationships both inside and outside an organization through social networking has the potential to improve processes, extend communications, and create business innovation. For example, Facebook, Twitter, and LinkedIn all play a significant role in the sharing of information, which may include supply chain best practices, supplier information, and benchmarking information. The ability to share information such as training material, videos, and live chat with suppliers is growing and has been used by companies such as Walmart with success. Additionally, manufacturers across the United States are using social media to improve communications throughout their organizations. Employees are able to send immediate messages and photos whenever there is an issue within operations. This has resulted in a 20% improvement in production for some companies that utilize social media to communicate.[2]

Sourcemap is also playing a role in supply chain management. Companies such as Chiquita Fruit Solutions and BIC Cristal Pen utilize Sourcemap to promote their supply chain and provide insight into a product or service. Sourcemap, which calls itself a social network for supply chains, allows users to edit and view maps detailing the supply chain and carbon footprint of a variety of products. Locations of suppliers, descriptions, photos and videos can be shared through the free service. Social media is also creating more visibility into supply chains by providing product information or indicating the source of a product.

[2] Socialtext Enterprise Social Software Blog, "Industrial Mold & Machine Turns Major Problem into Rousing Success" by Sarah Goldman, January 14, 2013, http://www.socialtext.com/blog/2013/01/industrial-mold-machine-turns-major-problem-into-rousing-success/

Several parties must work in unison in order for a supply chain to be properly coordinated. A disruption will occur if there is any type of service setback. The use of social media allows Consumer Products companies to discuss issues with their trading partners to determine the reason for a particular problem and to develop a solution. Better communication through social media can also help improve on-time performance and reduce stock-out rates.

Here are two things you can do in the next year to position your company to better leverage social media:

- **Understand social media.** If you're a novice, make this the year you take a social media 101 course and begin to interact online. Only then will you gain an understanding of how to use these tools to help your business.

- **Use social media tools to directly engage with customers and the public.** How about putting your logistics team's Twitter handle on the back of trailers to encourage feedback on driver performance? This and other ideas are just a brainstorming session away.

5. Third-Party Logistics Business Models: Addressing Complex Supply Chains

Third party logistics providers (3PLs) have served Consumer Products companies for decades, primarily as tactical partners in warehousing and delivery. But the strategic role of 3PLs is changing as they expand capabilities and position themselves upstream and downstream in the supply chain. Today, 3PLs:

- Feed raw materials just-in-time to production based on real-time demand signals

- Run full-fledged packaging operations

- Participate as full members of customers' sustainability teams aimed at meeting board-level mandates for carbon reduction

- Purchase returned products for cash and manage final disposition

- Provide supply chain visibility for high-value products, which is critical for inventory availability, order status, and security while in transit

- Help companies reduce the cost of theft by working closely together to set up implementable processes while improving the efficiency of the supply chain

3PLs have not only expanded capabilities, their investments in engineering, supply chain software, and information systems infrastructure often dwarf those of their customers in the Consumer Products space. Sophisticated, full-service 3PLs provide an interesting option to Consumer Products logistics organizations that want to adapt quickly and decisively to market changes. The question is how to leverage these capabilities to the fullest and forge more strategic partnerships with 3PLs. For those who figure it out, 3PLs can hold the key to becoming a leaner, more virtual company while still maintaining world-class logistics capabilities.

Here are two things you can do in the next year to better leverage your 3PLs:

- **Make your 3PLs true partners.** That means giving them a seat at the planning table. Start small. Invite your 3PL partner to your next internal planning session. In the long run, squeezing pennies out of a group of tactical logistics partners simply won't yield the same payback as when those partners begin thinking and acting like members of your team.

- **Dissect your supply chain and look to eliminate unnecessary steps.** Many 3PLs have expanded their capabilities to the point where they can take on services previously handled by you or outside suppliers. These include quality inspections, product assembly, packaging, and carrier management. The further upstream and downstream in the supply chain your 3PL can assist, the faster and more efficiently your products can get to market.

Supply Chain Trends for the Future

Consumer Products companies are constantly looking for ways to improve their performance as they face significant competition from many facets. The ability to maintain a competitive edge going forward will depend on how well a company's strategic plan is developed and implemented. Fortunately, there are supply chain tools that can be utilized to allow strategic plans to be implemented successfully.

The ability of a Consumer Products company to identify major trends that shape the way supply chains will operate in the future is a critical part of this process. At most companies, strategic planning and management continues to evolve. Competitive forces within the domestic market are increasing as new products and consumer choices are changing. When addressing these issues, Big Data and Supply Chain Visibility, All-Channel Fulfillment, Social Media, Sustainability and the extended use of 3PLs are supply chain trends that cannot be overlooked.

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About Kane

Kane Is Able is a third party logistics provider that helps consumer packaged goods (CPG) companies warehouse and distribute goods throughout the U.S. KANE's CPG logistics solutions include integrated warehousing, contract packaging, and transportation services specially designed to meet the needs of CPG manufacturers and their retail partners.

For more information, http://www.kaneisable.com/

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