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Will Large Retailers Help Manufacturers Drive Out Supply Chain Complexity?

Many Chains Cutting Back on SKU Counts; Good for the Winners, but not So Good for Some Smaller Manufacturers? 88 Pantene Shampoos at Target

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Proliferation in the number of products carried by both manufacturers and retailers is probably the largest driver of supply chain complexity, and results in large costs and challenges. (See **The Supply Chain Complexity Crisis**).

Over the last two decades, the numbers of "SKUs" (stock keeping units) has expanded dramatically, as consumers were micro-targeted with caffeine-free diet colas with lime, and more variety of toothpastes than most normal consumers could even ponder. A typical Target store, for example, has 88 kinds of Pantene shampoo. According to the Food Marketing Institute, the number of SKUs on an average grocery store's shelves is up more than 50% from 1996, rising to more than 47,000 today and exceeding 100,000 at some larger grocers.

Now, many retailers are saying there is too much micro-segmentation going on that doesn't deliver to the bottom line.

Several years ago, as part of its Inventory DeLoad program that was triggered by rising inventory levels, Wal-Mart said it was going to reduce the number of suppliers it used in many product categories, down to two or three in many cases.

According to a recent story in the Wall Street Journal, drug store chain Walgreen's is cutting the types of superglues it carries to 11 from 25, while Wal-Mart has reduced the number of tape measures it carries from 24 to just 4. Perhaps most surprising - Kroger is testing whether it can reduce the number of cereals it carries on its shelves by as much as 30%.

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Of course, such SKU reduction efforts are common in economic recessions, and may be especially attractive in the very deep downturn experienced in the US and elsewhere. It isn't only retailers that are making such moves. Consumer packaged goods manufacturer Church & Dwight, for example, is cutting in half the number of new products it plans to release this year, from 50 to just 25, noting the change will help it focus more resources on the winning products.

Whether they will last or not is the question. Despite the supply chain costs of the larger number of SKUs in terms of forecast accuracy, inventory levels, material handling and more, generally new products and SKU-extensions are the result of the "innovation" often emphasized by company leaders and industry experts. SKU proliferation in some cases was also viewed as a way for manufacturers to expand or maintain shelf space and keep smaller competitors out.

The 1990s especially was a time when views about "micro-marketing" encouraged manufacturers to more finely tailor products to smaller and smaller niches of buyers. Some cola drinkers want caffeine and some don't. Ditto with diet or regular, and

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lime or no lime. Produce all the possible combinations, and each drinker can get what they want, but at a huge cost in SKU counts and supply chain complexity.

That thinking is starting to change.

"All that go-go 1990s where we were adding items in and adding items in, and people wanted more, more, more, more choice... just didn't pay off," **Catherine Lindner**, Walgreen's divisional vice president for marketing development, said at a recent conference. She says consumers are confused. "People say, 'Whoa, you're bombarding me. Help me figure out what I need,'" Linder added.

Clearly, SKU reduction will reduce cost-adding complexity and drive higher profits.

"We generally end up with share and sales growth, and it's all, of course, a lot more profitable and returns a lot more cash," said retiring Procter & Gamble Chief Executive **A.G. Lafley** at an investor conference last month.

That's great if you are P&G or the clear leader in a product category. But if you aren't number 1 or 2, the change could mean you lose the retailer as a sales channel.

The Wall Street Journal, for example, reports Campbell Soup expects to gain about 10% to 15% more shelf space at large retailers this fall as a result of these SKU changes. P&G's Lafley said SKU and vendor reduction "benefits the leaders in the industry and it disproportionately benefits P&G."

Another factor is the growth in private label brands. As more retailers put emphasis there, and consumers pinched by the recession respond to the lower price points, it creates more incentive to weed out some name brand products.

Whether the move will survive the eventual economic recovery or consumer preference remains of course to be seen. While many have been calling for a reduction in SKU proliferation, what manufacturers and retailers it really benefits and hurts in the end will be the key question.