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Supply Chain News: New Thinking in Supply Chain for Tough Times – and Beyond

Real Results Magazine Interviews SCDigest's Dan Gilmore on S&OP, Collaboration, Supply Chain Strategy and More

SCDigest Editorial Staff

Though there are many signs the economy is starting to recover, the recession has been long and deep, and many companies are still looking for ideas on how to use their supply chains to best cope with the downturn – and prepare for the recovery.

JDA Software recently interviewed SCDigest editor Dan Gilmore on his thoughts on these issues. Below is the QA that appeared in the July issue of JDA's ***Real Results*** magazine.

What are the short-term and long-term strategies for supply chain companies to survive and thrive in the current economic climate and environmental pressures?

Gilmore: Companies need to be thinking as much offensively as they may have been thinking defensively over the last several months because this recession is not going to last forever.

Too many companies have reacted to the downturn with indiscriminant cost reductions, which are probably not in their best interests long term. You have to be very careful about cutting what's core and cutting what's really going to drive revenue in both the short and long term.

This can also be an opportune time to do the hard things that you've wanted to do, but haven't been able to muster up the energy or the focus until now – whether it's a supply chain network redesign, supply chain reorganization, changing the way you align people and metrics, or the way you deliver value to the customer.

The best companies are really good at learning from those differences to continue to improve the S&OP master process. Every business and region will contribute learnings

Accenture recently re-released a 2003 study showing that the gap in competitiveness actually accelerates coming out of recessions. If you have both a defensive and offensive mindset, you can ultimately change the competitive landscape coming out of this economic turbulence.

What are some changes manufacturers are making in response to the current economic environment?

Gilmore: Supply chain planners are starting to look at things with much more granularity. They are starting to segment their SKU-bases in new ways, understanding that in these economic times the product demand across SKUs may be very different from what we have seen historically.

In the toy industry for example, the low-price products have held up really well. The higher end, more expensive toys have taken a beating. Maybe in the past you could have used a more standardized approach to how you manage those forecasting, replenishment and production scheduling processes; however, now you have to get to an-

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other level of detail in segmentation.

Some manufacturers are using this opportunity to also finally take on SKU-rationalization projects and reduce the number of SKUs they have using tools such as gross margin return on inventory and other techniques. Many companies have wanted to do that for a number of years and have always found it tough, but in this economic time SKU-rationalization efforts can happen with less internal resistance from other parts of the organization.

Do you foresee manufacturers embracing more point-of-sale (POS) initiatives in the future?

Gilmore: The amount of POS data that is available from most retailers is very substantial now. But because we're still fairly new at this, the technology to deal with POS data – particularly at the store level – has until fairly recently really not been available. That has changed significantly over the last few years. Frankly, many companies don't know yet how to fully take advantage of that data. The interest is extremely high, but we are still very much in a learning period.

If we had to ask companies what their top strategies for supply chain are for the next couple of years from the manufacturing perspective, I think better leveraging POS data would be very high on the list. We recently did a study for our integrated supply chain planning and execution report where 53 percent of consumer goods manufacturers cited better use of POS data as the central strategy to improve integrated planning and execution. That is not a surprising result given the potential it has to improve supply chains, as well as overall company performance.

What are the benefits for manufacturers to adopt POS strategies?

Most companies realize they need a sense and respond network that allows them to react quicker to what is actually happening.

I spoke to one major consumer goods manufacturer, and the company said too often it could be three months before it really understood whether a promotion that it was running was ultimately successful. The company commented on the need to dramatically reduce that lag time between when something happens and it knows about it. The consumer goods world in the end is obviously driven by POS.

Then there is this notion of "demand sensing" that is also related to the concept of "sense and respond." This refers to the way we can understand trends and effectiveness of the programs we're running and the ability to adjust our replenishment strategies accordingly. A handful of manufacturers are starting to actually use these enhanced projections with the baseline forecast to adjust production schedules much more dynamically than they did in the past.

What's exciting here is that we probably have another 10 years to go before we all get really good at this, but what's great about that is it gives us all the opportunity for continuous improvement.

How can businesses improve their Sales and Operations Planning (S&OP) processes to reach world-class optimization levels?

Gilmore: S&OP has to be rolled out to different divisions, countries and operating regions. It really should be a single global process for the whole organization, but that takes time. However, while you can develop process templates and best practices, S&OP needs to adapt to the different environments those regions and divisions operate in. You can't just assume what works in the United States and one business will work exactly that way for companies in Asia. It likely won't.

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Additionally, even if you come out of S&OP with a single demand forecast, does that mean it is right? Of course it doesn't. You can't totally anticipate the way a competitor is going to react to what you're doing in the marketplace. You can't completely plan for supply chain disruptions that are out of your control.

That's where scenario analysis comes into play. Companies can say that if a competitor, for example, launches a very aggressive promotion that is going to potentially eat into the planned forecast, what could the company have already thought through in terms of how it is going to react? What's going to be the impact on its sales at the unit level, as well as its financial plan? I think that's where companies need to go in addition to integrating that forecast into the full balance sheet and income statement.

What are some of the challenges manufacturers face in achieving collaboration with retail partners?

Gilmore: It's hard to collaborate effectively if you don't have your own act together. Not that many consumer goods companies and retailers have not really reached a high level of maturity with S&OP, still have multiple forecasts within the organization and may not have their technology act together begs the question: how good of a job can you do at collaborating as a retailer or a manufacturer if you don't have your own processes working at a high level of effectiveness?

I am finally starting to hear a lot more examples of retailers that are really interested in a true collaborative effort. I don't think it's going to follow the formal Collaborative Planning, Forecasting and Replenishment (CPFR) model, which I think has proven a bit too rigid in some areas. That doesn't mean the principles and the drivers behind CPFR won't be adopted. It's just going to be with a different model and may actually be more customized between two trading partners based on their needs. For example, you may need a different style of collaboration on promotional products and events versus traditional drive. Many manufacturers have streamlined their internal supply chains, so where do you go next to get better? It's got to be with that higher level of collaboration with your customers.

How can building better partnerships with retailers optimize supply chain sales and profits?

Gilmore: In any supply chain we have what I like to refer to as "local optimization." Manufacturing divisions within a consumer goods company tend to want to optimize their own results and schedules – same with transportation managers and so on.

There needs to be some sort of mechanism that enables the sharing of those improvements to be allocated effectively and in a way that everyone feels the benefits. When collaboration generates some savings or an increase in revenue, both sides have to feel happy about how that benefit is going to be shared.

Over the last three to five years a number of consumer goods companies and a smaller number of retailers have actually appointed a person to a position that's responsible for looking at the total supply chain. There are some retailers that have people responsible for looking at the flow of a product all the way from the manufacturer to the retail shelf. Those positions didn't exist in the past. In the manufacturer's role for example, they viewed that their job ended when they got their product into the retailer's distribution center. The retailer only cared about the product once it got into its distribution network. A handful of leaders are taking a more integrated, holistic approach to supply chain planning, and I think over the next five years you'll see more companies do that as well.