INSIGHTS

Is One Supply Chain the Right Strategy?

How Segmented Supply Chains Make the Difference in Winning at the Shelf

Imagine taking the scenic route to work every day. Sure, the drive might be nice, but you might miss more morning meetings than you like. Depending on your daily schedule, taking the HOV carpool lane can get you to work faster and on time for those meetings. You may pay a premium to use it, but you'll get there. Your choice is driven by the daily needs. Products are no different. Crafting faster "highways" for some products allow Consumer Products (CP) companies to quickly respond to demand unpredictability through a responsive, flexible supply chain – and ultimately get your product to its meeting with the consumer - on the shelf.

Different products with unpredictable demand need different supply chain options. Why haven't CP companies selling through more traditional channels caught up with this revolutionary concept? Working with leading CP companies, Clarkston has been able to successfully implement segmented supply chains tailored to specific product characteristics and business objectives.

What the Consumer Wants

Studies show that consumer purchasing behavior varies across product categories. For example, the impulses, needs, frequency, and behavior predictability of a person shopping for laundry detergent look quite different from a person shopping for pet supplies. Consumer buying behavior not only varies by category, but also across the ever-changing consumer demographics. Yet these products - with such different paths to purchase - can all be found within the same store, many times within just a few aisles from one another. With the continuously growing portfolio of products now owned by CP companies, the same manufacturers make products in several different categories. Yet all products end up on the shelf, one way or another, ready for purchase.

Does the consumer care how they got there? Not really, as long as the products are on the shelf when they need them, how they need them and at the right price. How they arrived on the shelf doesn't really matter. Whether they were shrink-wrapped on the same pallet, independently packaged directly from the manufacturer (DSD), or shipped through a series of warehouses and consolidation cross-docking points, the consumer just wants the product when they need it.

Why Just One Supply Chain?

Why do CP companies continue to use the same supply chain to move their ever-growing variety of products through the same distribution channel? By taking this approach, companies may be providing higher levels of service than what the consumer wants or cares, in turn making the product more expensive. At the same time, they are exposing other products to higher out-of-stocks by using less responsive channels. Many times, the results of a single supply chain approach are higher prices and failure to deliver product to the shelves.

Mergers and acquisitions, coupled with increasing product launches without corresponding product retirements, have left CP companies with widely diverse product portfolios. Companies are juggling more and more products, but have failed to evaluate how their supply chain is affected by this increased product portfolio.

A never-ending chase towards economies of scale has blinded many companies, boxing them into the single supply chain. This often results in some products subsidizing others, at the expense of failing to meet basic consumer needs. For most CP companies, supply chains are driven solely by maximizing cube, asset, and labor utilization.

Case Study

Challenge: *Our client's mainstay products faced a steady decline. A recent merger had resulted in a broad portfolio of mature brands. To offset these challenges, business strategy relied on the successful introduction of new and innovative products.*

Solution

- *Align the supply chain with the new product strategy without disrupting the highly-scaled and efficient supply of mature products.*
- *Implement hybrid supply chains providing differentiated support for products as they move through their lifecycle.*
- *Facilitate new product introduction and growth through supply practices which are consumer driven. Develop the capability to respond in shorter planning periods.*

Results

- *Enhanced in-stock position for profitable new products attempting to gain market share.*
- *Branded the supply chain organization as an enabler of growth.*

Breaking the Supply Chain Mold

Why not maintain such economies of scale gains by setting up supply chains tailored to product characteristics? In other words, implement a hybrid supply chain providing differentiated support for products as they move through their lifecycle.

Stable products with predictable demand can be grouped into one category. Declining products for which an out-of-stock at the shelf is not too critical can also be grouped into another one. Finally and most importantly, new-to-world products, those in which CP companies invest heavily in R&D, and from which companies rely for future organic growth and gaining market share, can be grouped into a third category.

It's time to evaluate your supply chain methodology and begin looking into the possibility of segmented supply chains – different supply chains for products with different demands.

Make Your New Products More Responsive

The tenets of new product supply are different than those of stable products. It is often a miss that product innovation doesn't carry out to supply chain innovation; this results in highly innovative new-to-world products being distributed through the same chain that has been in place for several decades for more predictable products.

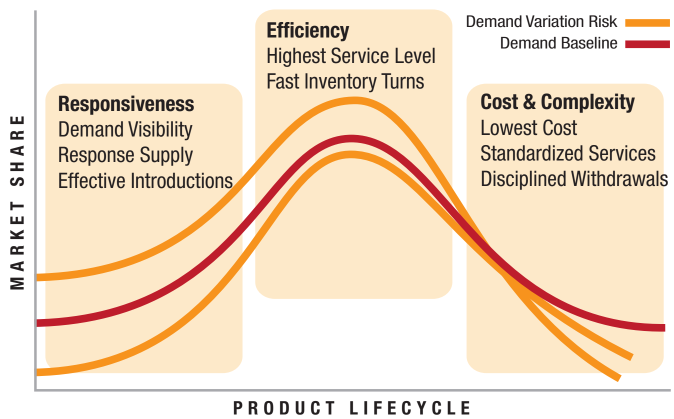
New-to-world products make an extremely compelling case for a segmented supply chain. Their inherent demand unpredictability and varying life cycles, depending on consumers' adoption, make these products a perfect candidate to follow a different supply chain. Uncertainty about how the market will respond amplifies the risk of both over-selling and under-selling the plan. The cost of a lost sale due to an out-of-stock at retail is much higher during product introduction. On the other hand, the product churn often associated with new-to-world products creates a high risk of obsolescence.

What do you need in the face of all this uncertainty? Flexibility and responsiveness. Leading CP companies have to embrace supply practices like segmented supply chains to facilitate new product introduction and growth through differentiated chains. It allows them to develop a capability to respond in shorter planning periods. A key benefit to this approach is the greater likelihood of enhanced in-stock position for profitable new products attempting to gain market share.

Reduce Your Out-of-Stocks

Through our work with several leading CP companies and their supply chains, we have found that creating segmented supply chains to support differing objectives by product and sales channel results in lower out-of-stocks and creates competitive advantages for the organization. Such benefits are driven by aligning service levels, assets, and cost trade-offs with specific supply objectives.

As companies continue to analyze their ever-growing product portfolio, a segmented supply chain becomes critical to ensuring product characteristics and consumer needs are aligned with the company's objectives.



Based on product characteristics and business objectives, a company's supply chain can be segmented as follows:

- **Responsiveness**: Efforts should be centered on demand visibility, where responsive supply can rapidly support effective introductions during early stages of the product lifecycle; they're often coupled with high demand unpredictability.
- **Efficiency**: Brings a combination of highest service level and fast inventory turns for stable products at the top of their lifecycle.
- **Cost & Complexity**: Provides lowest cost to serve by standardized services and disciplined withdrawals for declining products.

Companies should invest in growth supported by specialized supply chains driven by highly innovative, new products. Additionally, work to drive cost efficiency in your established supply chains, particularly in more stable and predictable product families. It's also important to protect against supply chain risk by not having all your eggs in one basket.

In working with many of the leading companies in the CP industry, we are seeing first hand that success at the shelf is clearly being dictated by the ability to manage through the challenges outlined in this paper. Companies that are better able to support new product introductions by taking advantage of tailored supply chains will continue to steal market share from competitors, ensuring leadership in the years ahead. Taking a segmented approach will make your supply chain more responsive to the ever-changing needs of the consumer, and ultimately success where it matters most – the shelf.

About the author

Sebastian Valencia is a senior manager with Clarkston Consulting with over ten years of management consulting and supply chain experience, with the last three years focused on managing large scale global project implementations, supply chain strategy and distribution redesign, and distribution network optimization. He has spent several years managing projects on inventory and warehouse management, production scheduling, JIT implementation, and vendor selection.

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