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Global Logistics Planning Guide: EFFICIENCY = PROFITABILITY

HOW TO SHED EXTRA DAYS OR DOLLARS FROM YOUR SUPPLY-CHAIN OPERATION

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Due to significant leaps in technology in the past decade, the average retail customer in 2017 purchases goods in a markedly different manner to their 2007 counterparts. This shift in consumer behavior is having major impacts on the way supply chains operate all around the world.

As the internet continues to evolve, so does the way that products are bought and sold. Buying habits have changed over the past 10 years; it is now commonplace to order groceries online, book a vacation without ever visiting a travel agent, and arrange for insurance products at the click of a button.

Changes in consumer behavior haven't ended there. CDs gave way to iPods, which ultimately have given way to consuming all manner of content, not just music, through mobile devices. The story is very similar in the world of home entertainment. Where it was once normal to rent or buy a DVD, technology now allows consumers to view movies in an instant by visiting an online streaming service or via on-demand services from a cable provider. As streaming increases in popularity and in quality, the consumption of physical media (DVDs and Blu-Rays) is in a steady, year-over-year decline. However, it's not quite the end of the road for the trusty DVD; billions of discs are still being manufactured and purchased each year. But there is no doubt in the industry that the ultimate future of home entertainment lies in streaming content directly to your home.

This market behavior has created a supply chain that needs to adapt to a segment that is in decline. Cost savings have to be made in line with the reduction in annual sales figures. Unfortunately, a number of major retailers have either suffered considerable layoffs, store closings, bankruptcies or liquidations. In such an environment, suppliers are now taking a closer look at the overall efficiency of the industry supply chain.

A large tranche of savings can be realized by crunching the data, better understanding customer behavior, and putting the entire supply chain, particularly demand management, under the microscope. A number of major consumer goods manufacturers are using the services of retail inventory management and analytics solutions in a quest to operate the most efficient supply chains within their retail categories. With specialist software packages, complex algorithms, and the knowledge and experience of industry analysts, supply chain activity and customer buying activity can be closely matched with production decisions and the management of inventory levels.

A number of key principles are involved in creating a more efficient retail supply chain in a declining market:

- Only manufacture product you expect to sell.
- Keep on-hand distribution inventory to a minimum and turn as frequently as possible.
- Maximize in-store stock levels.
- In a declining market, every sale is valuable and customers must be able to find the item that they are looking for on a store shelf. Finding an empty space is a sure-fire way to help drive customers toward other buying methods.
- Work closely with retailers to agree on the most effective stocking policy for your product.
- As the supplier, you are likely to have better insight into consumer buying behavior than your retail customer. Work with the retailer to create a collaborative approach to setting in-store stock levels for your products. It’s critical to maximize sales revenue but minimize potential costly returns.
- Tailor your product offering to the buying habits of the customer at a particular retailer. For instance, urban pet owners are more likely to be concerned about the emotional needs of their pets and are more receptive to products such as calming shirts and pheromone diffusers.
- Examine forecast accuracy and benchmark your forecast versus your actual sales. This analysis can provide useful data to tweak the important demand planning algorithm.
- Minimize returns in the supply chain. Just enough of the right product in the right place at the right time should be the ultimate goal. Keeping costly returns to a minimum at the end of a campaign or promotion will help you operate more efficiently and save costs.

Examine all aspects of the supply chain, strive to understand consumer behavior the best that you can, and work closely with your retailers to right-size in-store inventory. Sometimes the ambition of the sales department to sell as many units as possible from day one is at odds with the quest to operate a more efficient supply chain. Overselling on the front end can cause a heavy slew of costly returns on the back end.

Understand your market and analyze your data. The more informed you can be about your customer buying behavior, the more accurate you can become with your demand planning. Good inventory and demand management helps increase sales revenue, improves in-stock performance of your SKUs, reduces costly returns activity, and decreases exposure to obsolescence.

But merely switching to a lean approach to inventory management will fix all your problems. The art of maximizing the savings in your supply chain also comes from many hours of analyzing and understanding retailer data. The benefits of a close, collaborative relationship with your major retailers cannot be underestimated.

Demand planning and inventory management is a complicated science; these days it is common to outsource those key supply chain activities to the specialists. Particularly in declining markets such as the physical media sector, there is no point in reinventing the wheel when it comes to optimizing your retail supply chain performance. Search out the specialist services of a multi-level VMI and demand management solution that utilizes customer demand to drive supply chain recommendations and reporting.

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