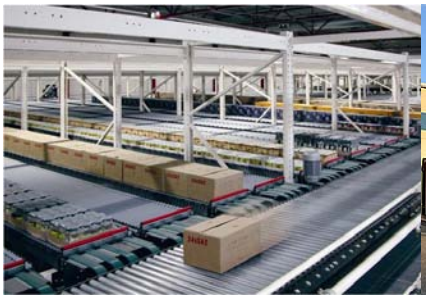
A KANE Research Study

# Key Supply Chain Challenges of Mid-Sized CPG Companies

## Survey of 110 CPG Logistics Executives Explores Supplier/Retailer Relationships






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# About the Study

**Overview of the Research Process**

The dramatic downturn of the U.S. economy and tepid, erratic recovery has created a difficult retailing environment. Store traffic is inconsistent, consumers have been conditioned to wait for promotions, and the Internet has become a viable alternative fulfillment channel.

In response, retailers have modified their supply strategies to reduce inventory investment risk. This lean approach has significant supply chain implications for consumer packaged goods (CPG) manufacturers. They must adapt to these changing priorities and attempt to moderate the impact of lower retailer inventory levels on transportation and fulfillment operations.

Ultimately, the current lean retailing priorities and "ever-changing supply chain requirements" create significant expense and risk, according to many CPG supply chain executives. They also provide the impetus for our Mid-Sized CPG Supply Chain Challenge Study.

> ***"The largest issue is the ever-changing supply chain requirements of retailers. Each one is trying to be the leader and has different rules."***

## Purpose of the Study

The purpose of the Supply Chain Challenge Study is to investigate CPG manufacturer strategies for coping with the supply chain demands of major retailers. Developing appropriate strategies is essential as retailer requirements directly impact a manufacturer's operating practices and costs.

These issues are particularly relevant to mid-sized CPG manufacturers. They have limited influence over retailers' supply chain practices and scant resources to invest in supply chain technology. Hence, mid-sized companies should actively consider the strategies set forth in this report.

## Study Objectives and Goals

Our study addresses three critical aspects of CPG manufacturer-retailer relationships:

*Collaborative Alignment:* How do CPG manufacturers and retailers jointly pursue key supply chain requirements?

*Inventory Optimization:* How can CPG manufacturers support retailers' inventory policies in a cost-effective manner?

*Transportation Compliance:* How are CPG manufacturers overcoming the inherent challenges in retailers' delivery needs?

In the pages ahead, we present an in-depth analysis of each question. The results can be used by mid-sized CPG manufacturers to benchmark their supply chain strategies. We also offer strategic recommendations for improving performance in each of the three areas, including how to best leverage the capabilities of 3PL providers.

Collectively, our study findings can be used by mid-sized CPG manufacturers to better respond to changing retailer demands.

> ***"Retailers are trying to shrink their inventories. That pushes some of the labor back onto us and potentially makes the transportation more inefficient too."***

## Study Methodology

To gain meaningful insights and comparison opportunities, we pursued participation from CPG manufacturers of all sizes. Potential candidates were identified through supply chain professional association membership lists, 3PL provider client lists, and website postings.

Information for this report was gathered via senior executive interviews and an online survey. A total of 130 representatives of CPG companies were engaged in our study. The table provides demographic highlights of the participant pool.

| Characteristics | Summary |
|---|---|
| Company revenues: | |
| Under $1 billion | 56.9% |
| Above $1 billion | 43.1% |
| Respondent: | |
| Manager level or above | 92.3% |
| Average SCM experience | 20.4 years |

### Senior Executive Interviews

We began the study with a series of 20 expert interviews with CPG supply chain professionals. The majority of participants work for U.S. based CPG manufacturers, though a few are employed by Canadian companies.

The semi-structured nature of the interviews provided an excellent opportunity to explore a variety of topics with these supply chain executives. Their input helped us understand CPG supply chain challenges and strategies used to satisfy retailer requirements.

During these interviews, it became clear that mid-sized CPG manufacturers face multiple challenges. According to the interview participants, retailers are more performance driven than ever and less forgiving of supply chain slip ups. In particular, demand planning, inventory, and transportation are areas with no margin of error.

Many mid-sized CPG manufacturers identified the need to pursue supply chain alignment, efficiency, and compliance. These interview themes quickly became the primary focus of our research and the CPG manufacturer survey.

## Online Survey

We developed an Internet-based survey to analyze the research objectives and key issues uncovered during the interviews. Direct email and relevant industry websites were used to distribute the survey link. These methods netted 110 completed surveys from supply chain experts.

Our research team compiled the data, reviewed interview transcripts, and analyzed the results. This report reveals our key findings via discussion, graphics, and expert quotes.

## Study Participants

We want to thank each supply chain experts for participating and contributing to the success of the CPG Supply Chain Challenge Study. As indicated by the following sample of companies interviewed, a wide range of CPG manufacturers are represented:

| Study Participants | | |
|---|---|---|
| Belkin | Dr. Pepper Snapple | NE Country Soup |
| Bumble Bee Foods | Faultless/Bon Ami | P&G |
| Bush Bros. | Ferrero USA | PLB International |
| C.H. Guenther | Foster Farms | RM Palmer |
| Clorox | Hormel | Seventh Generation |
| Cobra | Land O Lakes | Southeastern Mills |
| Coca-Cola | McCormick & Co. | Sunsweet Growers |
| ConAgra Foods | Mead Johnson Nutrition | Ventura Foods |
| Continental Mills | Musco Family Olive Co. | Welch's Foods |
| Coty Inc. | NBTY Inc. | WhoNu Cookies |

# Alignment: Collaborating with Retailers

**Issues, Strategies, and Benefits**

Manufacturer-retailer collaboration is widely touted as a facilitator of forecast accuracy, process synchronization, and cost reduction. Mid-sized CPG manufacturers desire the opportunity to establish these deeper, more collaborative relationships. They believe supply chain alignment is imperative, especially given the escalation of retailer expectations.

The interviewees indicated that, given the opportunity, they would benefit from working more closely with major retailers. This would allow the mid-sized companies to implement some of the same practices currently used by their large competitors. In addition, the CPG companies believe that stronger alignment would generate value for all parties.

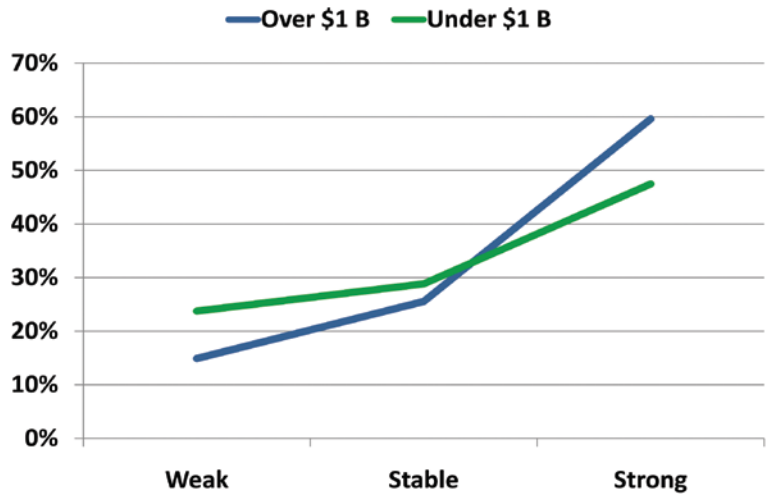
> ***"There is a lack of receptiveness by retailers. They are distant and unwilling to hear our concerns and ideas."***

## Key Issues

Collaboration requires strong communication. The parties must establish a level of trust and find mutual value in two-way interaction.

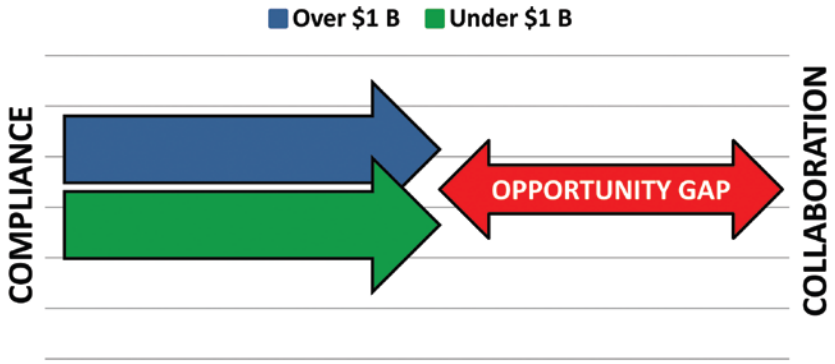
Though very important, the majority of mid-sized CPG manufacturers struggle in this area. Relative to large CPG manufacturers, mid-sized companies do not have frequent, extensive communication with retailers. This challenge is highlighted in the comparative diagram.

**Strength of Communication with Retailers**



Strong communication is necessary but not sufficient for strong collaboration. Both parties must be actively engaged in the relationship and pursue mutual benefits. Both mid-sized and large CPG manufacturers indicated that their retailer relationships are stable but no more collaboration focused than compliance focused. The diagram reveals that an opportunity exists for both groups to achieve greater collaboration with retailers.

**Focus of Relationship with Retailers**




Size is another barrier to effective collaboration. Retailers tend to focus on the suppliers that provide the largest proportion of their products and tend to drive their revenues. Mid-sized CPG companies report they struggle to convince the retailer to invest energy in the partnership with an organization of their size.

Another major barrier to collaboration is the retailer domination of the relationship. Mid-sized CPG companies indicate that retailers often change service requirements without regard to the cost implications. Primary challenges arise from the following retailer demands:

| Requirements | Mean |
|---|---|
| 1. Shorter order cycle time | 3.6 |
| 2. Delivery of shelf ready products | 3.0 |
| 3. Better forecasting information | 2.8 |

Scale: 1 = No challenge to 5 = Great challenge

Mid-sized CPG manufacturers face many challenges including limited communications, barriers because of size, and an overall lack of leverage in the relationship with the retailer. In spite of these challenges, there are strategies to support innovative solutions beneficial to the relationship.

## Strategic Responses

Many strategies for overcoming these challenges are available. CPG manufacturers identified predictability as the key to serving large retailers. The more predictable the elements are that impact the system the easier the system is to manage. Alignment with retailers is viewed as a key to predictability. Below are three collaboration strategies to aid alignment and enhance predictability.

## Strategy 1 – Improve Forecasting Processes

In addition to shorter order cycle time (OCT) requirements, retailers are demanding smaller, more frequent deliveries of products. This puts a burden on mid-sized CPG companies to be more responsive.

One solution would be to increase inventory levels at CPG distribution centers to ensure rapid replenishment. However, this is a costly proposition that most mid-sized companies wish to avoid.

Mid-sized CPG companies believe that accurate information is the solution. They are pursuing information-based strategies to comply with retailer service requirements in a cost efficient manner, most notably stronger forecasting:

**Strategic Response to Retailer OCT Requirements**




As forecasting capabilities are enhanced, demand becomes more predictable. This helps production planners accurately assess and respond to demand. The outcomes are higher fill rates, service improvement, and waste reduction. As waste is reduced, efficiencies and cost savings are realized.

### Strategy 2 – Invest in Technology and People

Mid-sized CPG manufacturers recognize the imperative to enhance their communication capabilities, customer service, and forecast accuracy. Each will contribute to reducing the collaboration gap with retailers.

To achieve greater collaboration and alignment with retailers, leading mid-sized companies are making strategic investments in their supply chain capabilities. Key spending priorities include:

| Primary Investment Area | Responses |
|---|---|
| 1. Software and Technology | 35.7% |
| 2. Training and Development | 25.0% |
| 3. Facility Improvements | 17.9% |

These types of investments should positively impact alignment between CPG manufacturers and their retailers. Over a third of all CPG companies are investing most heavily in software and technology. Systems upgrades will enhance connectivity and help synchronize supply chain processes. This will allow CPG manufacturers to receive crucial data in a timely manner, enhancing overall planning and execution capabilities.

Investments in CPG company talent will enhance the team's ability to use the new technologies, apply supply chain strategies, and coordinate activities with retailers. Technology, talent and facilities investments will help retailers achieve a popular vision of the future. Many retailers desire a model where they send information directly to a multi-vendor DC facility. The facility would then consolidate orders from various CPG companies into one shipment of store-ready pallets.

### POS Data to Improve Performance: An Example

A mid-sized CPG is tackling the need for information head on by convincing retailers that access to POS information will drive sales through improved forecasting and fewer stockouts. As data became available, the CPG manufacturer partnered with their 3PL provider for data interpretation. "With access to key information and with the help of our 3PL partner, we were able to use the data for forecasting but also to evaluate our retailer service quality."

The CPG manufacturer believes they now have a competitive advantage. Collaborative efforts such as these improve overall system synchronization and drive improved performance. The competitive advantage now comes from expertise in information processing instead of superior product handling capabilities.

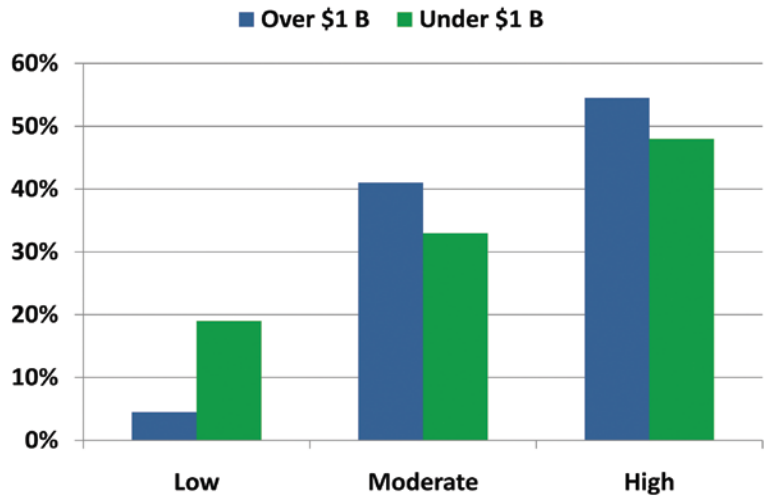
### Strategy 3 – Collaborative Distribution

Throughout the study, the CPG executives highlighted the key role of 3PL providers in facilitating supply chain alignment with retailers. According to mid-sized CPG manufacturers, their quest for greater collaboration is enhanced by 3PL providers with strong retailer relationships. In fact, customer relationship management leads their list of important 3PL capabilities:

| 3PL Capabilities | Rank |
|---|---|
| Customer relationship management | 1 |
| Flexible transportation capacity | 2 |
| Data capture and analysis | 3 |
| Performance metrics compliance | 4 |
| Logistics network optimization | 5 |

Among the study participants, nearly 40 percent have experience with collaborative distribution. Large CPG manufacturers led the way with 44 percent using collaborative distribution versus 35.6 percent for mid-sized companies. Both groups expressed satisfaction with this strategy which co-locates inventory of multiple CPG manufacturers in a single distribution facility to share space and the cost of sending larger, consolidated outbound shipments to the same retail customers.

**Satisfaction with Collaborative Distribution**




Three common concerns were expressed about collaborative distribution. Maintaining a customer orientation was a primary concern. Specific areas included the ability to maintain a strong customer relationship and consistently achieve a high quality of customer service.

Consistent administration was another area of concern. Consistent program participation from willing participants is seen as a challenge. Consistent enforcement of program rules was another commonly identified challenge of collaborative distribution.

> ***"We believe that, if done right, collaborative distribution will improve service at retail while reducing supply chain costs."***

Perhaps most critical to some was the ability to achieve sufficient levels of communication with partners. Many identified the ability to achieve interconnectivity among program participants as a key to success. Several also believe it will be difficult to identify program partners with common goals and attributes.

Despite concerns, among the mid-sized companies using collaborative distribution, 71.4 percent plan to maintain or increase their use of the strategy. Nearly 46 percent of companies without previous collaborative distribution experience plan to explore the strategy.

When performed correctly, collaborative distribution helps mid-sized CPG manufacturers reduce costs and improve service levels. Specific benefits include:

- Improve product availability through reduced deliveries and enhanced order fill rates.
- Consolidate partial loads to reduce freight costs and retain service levels for all participants.
- Reduce partial load frequency to reduce the carbon footprint of all participants.

> ***"We work hard at collaboration to effectively 'punch above our weight' and deliver higher levels of service to the retailers."***

## The Takeaways

CPG manufacturers view supply chain alignment as a key factor in serving retailer customers. CPG companies don't generally feel alignment is being achieved. They propose several solutions.

- Improve data access so CPG companies can understand and respond to consumer demand.
- Adopt common processes so CPG companies can synchronize operations with the retailer.
- Leverage 3PL partner knowledge and infrastructure to capitalize on retailer relationships.

Enhanced communication among supply chain partners creates access to people and data. This sharing of knowledge and information allows for better supply chain alignment and results in a positive ripple effect throughout the supply chain. The end result is a smoothly functioning supply chain that efficiently serves customers.

# Efficiency: Optimizing Inventory Investment

**Issues, Strategies, and Benefits**

Another concern expressed by mid-sized CPG executives is the need to align their internal efficiency goals with the service requirements of retailers. Unless the organizations articulate a workable coordinated plan, there is great potential for conflict, misalignment of supply chain priorities, and a failure to achieve key goals.

Nowhere is this more apparent than in the area of inventory management. The interviewees highlighted the challenges created by retailers holding much less inventory and demanding access to rapid replenishments of small lots. This forces the CPG manufacturer to either sacrifice efficiency or rethink their inventory fulfillment processes.

> ***"The retailers are killing us – constantly changing delivery and inventory demands and then imposing punitive actions for non-compliance."***

## Key Issues

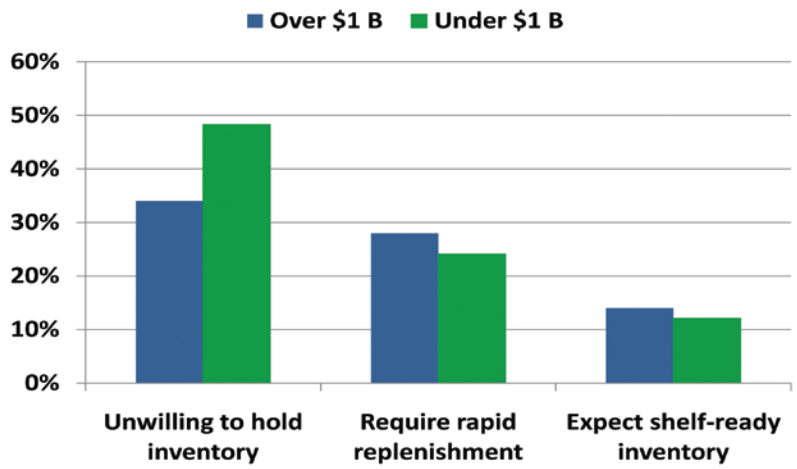
Inventory distribution can be accomplished via 3PL provider warehouses, wholesalers, distributors, and direct store delivery. The main method used by the study participants was to ship inventory from a CPG manufacturer to a retailer's distribution center (DC):

| Inventory Distribution Method | % Used |
|---|---|
| 1. From CPG to Retailer DC | 55% |
| 2. From CPG to Retailer Store (DSD) | 16% |
| 3. From CPG to 3PL Provider Facility | 13% |
| 3. From CPG to Wholesaler/ Distributor | 13% |

Regardless of the distribution method used, mid-sized CPG manufacturers are challenged by a variety of retailer inventory requirements.

CPG manufacturers in the study are concerned with the retailers' move toward lean inventories. Mid-sized companies are disproportionately affected by this retailer requirement with nearly 50 percent citing this concern. In comparison, 34 percent of large CPG companies highlighted retailers' unwillingness to hold inventory as their primary challenge.

### Most Challenging Retailer Requirement




Inventory velocity is another key concern among CPG companies. Approximately 28 percent of large CPG manufacturers and 24 percent of mid-sized companies reported rapid inventory replenishment as the most challenging retailer inventory policy.

These two primary retailer inventory strategies have huge repercussions for CPG manufacturers. They must hold more stock, make frequent deliveries, and replenish inventories in small lots.

> ***"Retailers despise stock-outs but refuse excess inventory, forcing us to hit short lead time and high fill rate targets or face punitive actions."***

### Strategic Responses

CPG manufacturers want efficiency and have begun to refine internal practices. They are enacting internal processes to better align their operations with those of the retailers they serve.

Better aligned goals and processes will make it easier to develop a mutually acceptable system. Below are three suggested strategies to aid partners in their quest for efficiency through enhanced supply chain process alignment.

### Strategy 1 – Internal Process Improvement

CPG companies face a range of retailer mandated inventory reduction initiatives. However, simply pushing inventory backward to the CPG manufacturer doesn't improve overall efficiency. They must respond with a system to achieve retailer required service levels with fewer inventories.

CPG manufacturers are responding to the challenge with enhanced internal systems and better trained personnel. System upgrades include ERP platforms and specific functional area software. These software purchases focused on transportation management systems (TMS), warehouse management systems (WMS), and order processing.

CPG manufacturers are also training personnel. Training is targeted to new system usage, data analysis, and efficient customer response. The goal of upgrade efforts is to help unlock the mystery of customer demand which remains shrouded in secrecy for many suppliers. The key is to have retailers provide timely access to data.

Mid-sized CPG companies feel that having access to retailer demand data will help forecasting and planning capabilities. This will assist the CPG companies' in their ability to contribute to:

- System wide inventory reductions
- Improved service levels through shorter lead times and better fill rates
- Enhanced overall supply chain efficiency

### Strategy 2 – Collaborate with Major Retailers

Inventory is a large investment for CPG manufacturers and an important component of the manufacturer-retailer relationship. Complying with retailer requirements was the driver force behind inventory strategy development for nearly half of the mid-sized CPG manufacturers:

| Key Reason to Pursue Inventory Strategy | % |
|---|---|
| 1. Comply with retailer inventory demands | 48% |
| 2. Better control of inventory costs | 22% |
| 3. Less complex inventory management | 16% |

CPG companies want to implement collaborative inventory replenishment policies with major retailers but they feel besieged by inventory rules and punitive actions for noncompliance. Manufacturers feel working with retailers to establish reasonable order minimums, define customized inventory requests, and identify agreeable replenishment practices are in the best interests of all parties.

> ***"Create a dialogue of continuous improvement. Fix the issues rather than create a menu of fines that become a revenue stream for retailers."***

Collaborative practices such as CPFR and VMI create valuable benefits when retailers and CPG manufacturers work side by side to address an inventory or stocking issue. The refinement of existing inventory practices and development of new techniques can help to manage supply chain partner investments in inventory.

### Strategy 3 – Work with Capable 3PL Providers

Mid-sized CPG manufacturers indicate a common strategy to deal with retailer inventory reduction demands is to use a capable 3PL provider. These organizations help CPG companies deal with retailers' demands for low inventory levels, short lead times, and rapid replenishment.

CPG manufacturers can use knowledge and infrastructure developed by their 3PL providers to strengthen their ability to comply with aggressive retailer inventory demands. Specific areas where 3PL providers regularly benefit CPG companies includes: system design, equipment access, process efficiency, consolidation and scheduling, and service level enhancement. In addition, mid-sized CPG manufacturers use 3PL providers to leverage their strong, ongoing relationships with key retailers.

#### Collaborative Relationship Facilitation

CPG manufacturers face a constant challenge to balance key variables that impact efficiency. Achieving efficiency is enhanced when proper supply chain partner alignment is accomplished.

Unfortunately, it is extremely rare that supply chain partners have complete alignment of goals, objectives, and processes. This can lead individual supply chain partners to pursue contrasting practices in search of efficiency.

3PL providers can help overcome what may seem to be insurmountable differences in CPG manufacturer and retailer goals or processes. Retailers may desire small, frequent shipments; a mandate that places some CPG companies in a bind. 3PL providers can help by offering consolidation opportunities that allow service levels to be retained at a reasonable cost.

> ***"Retailers can be difficult to deal with because they hold all the cards. We find that 3PLs can help us to successfully manage the retailer relationship."***

### Partnering for Rapid Inventory Flows: An Example

Retailers are pushing for fewer inventories, more product selection, and customized preparation of inventory. For mid-sized CPG companies this means frequent shipments of a wide variety of uniquely prepared products in small lot sizes. One mid-sized CPG is responding to these specialized and just-in-time inventory requirements by partnering with retailers and 3PL providers.

"We partnered with key retailers to pursue faster and cheaper inventory replenishment. The idea was to use information to help aggregate shipments, schedule multi-stop deliveries, and bypass the retailer's DC's by having us serve as their DC and cross dock directly to their stores. Teamwork allowed everyone access to current information, allowing adequate time to assess consolidation opportunities and schedule multi-stop deliveries. We were able to meet customer requirements at a reduced cost."

## Compliance with Specific Customer Criteria

Retailers often impose unique requirements on suppliers. As this happens, supplier margins decrease. Smaller margins leads to an evaluation of what processes are driving costs.

A common response is to evaluate service costs on a customer by customer basis. 3PL providers help in two ways. First they can track the cost to serve an individual retail customer. Second, they usually help to reduce the cost of service to some customers.

> ***"Retailers push to squeeze cost from the system and retain customer service. Now we are evaluating service costs by customer."***

### The Takeaways

Retailers' relentless drive for efficiency requires a balancing act by CPG companies. They must provide sufficient service levels while efficiently complying with many retailer requirements. CPG companies offer the following suggestions for successfully walking this tightrope.

- Utilize supply chain partnerships to identify the best processes for supply chain alignment.
- Use retailer partnerships to identify an optimal balance of product selection and efficiency.
- Engage 3PL partner to build an efficient supply chain focused on meeting retailer demands.

Mid-sized CPG companies want to provide retailers with efficient service by minimizing costs and preventing stock outs. These strategies help CPG companies to satisfy retailer and consumer needs while also allowing for sufficient efficiency of operations by mid-sized CPG manufacturers.

# Compliance: Achieving Transportation Excellence

**Issues, Strategies, and Benefits**

Transportation is the linchpin to CPG-retailer supply chain success. Timely, efficient deliveries keep retail shelves well-stocked and promote sales. In contrast, poor compliance with retailers' transportation needs will cause fulfillment problems and jeopardize customer goodwill. Hence, transportation excellence is paramount to maintaining strong relationships.

The interviewees appreciate the retailers' desire for perfect deliveries and continuous flows but argue that a reduction of overall supply chain network efficiency is a major consequence of smaller, more frequent deliveries. CPG manufacturers cited problems with retailer receiving dock backups, unrealistic lead times, and the growing delivery cost burden for manufacturers. Overcoming these barriers will require creative approaches.

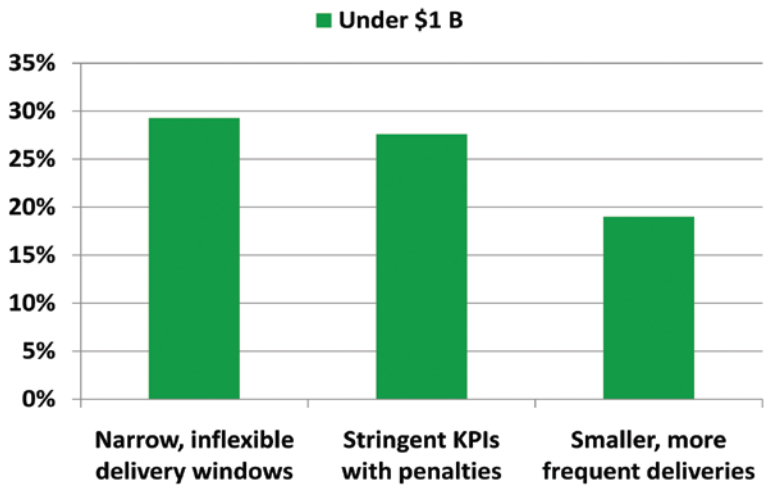
> ***"Retailers expect all shipments to be delivered on-time within a very limited window. Yet, they are unwilling to pay for guaranteed service."***

## Key Issues

As retailers reduce their on-hand inventories, substantial pressure falls upon a manufacturer's delivery processes. A retailer's tolerance for transportation delays or errors is nearly zero.

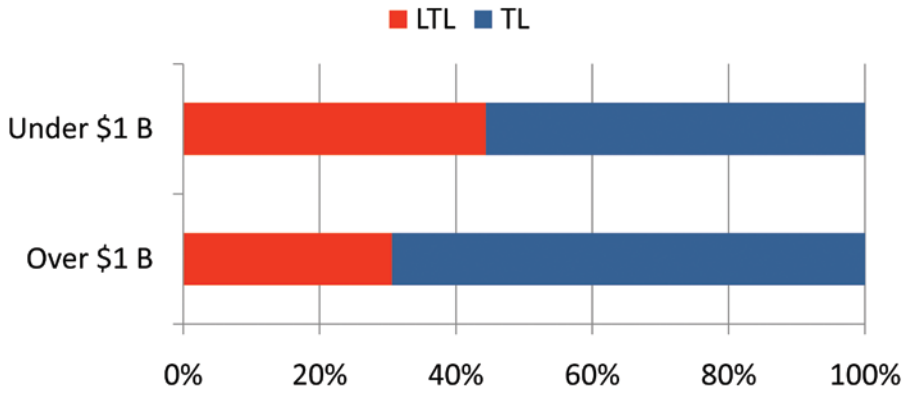
In this lean environment, retailers require just-in-time delivery of goods to create continuous flows. This translates into challenging and costly delivery requirements for mid-sized companies. These challenges are highlighted in the diagram.

**Most Challenging Retailer Requirement**



Another negative implication of lower inventory levels is the required shift in delivery method. Historically, CPG orders moved in efficient truckload (TL) quantities. Today, a growing proportion is delivered by less-than-truckload (LTL) carriers. As the diagram reveals, this demand for higher cost LTL delivery disproportionately impacts mid-sized CPG manufacturers.

**Major Delivery Methods to Retailers**




A third challenge occurs at retail distribution centers. Despite their increased reliance on LTL freight, retailers' receiving processes are tailored to unitized TL deliveries. Inadequate methods for handling mixed LTL loads leads to congestion and unloading delays. Late delivery fines and carrier detention charges accrue, creating an untenable situation for mid-sized CPG manufacturers.

> ***"Gridlock at retailer receiving docks makes it very difficult to schedule LTL appointments and get our products received on time."***

Volatile fuel costs, driver shortages, and ineffective backhaul processes only add to the transportation headache of mid-sized CPG companies. Fortunately, viable solutions are available to relieve the pain. Responsive transportation strategies are presented below.

## Strategic Responses

There are not fast and easy transportation fixes for mid-sized CPG manufacturers. They must develop creative and cost-effective responses to the stringent transportation requirements of major retailers. Fortunately, the innovators among our study participants have already begun to resolve the problem. Three strategies of these strategies are discussed next.

### Strategy 1 – Employ External Expertise

Few mid-sized manufacturers have the time and internal expertise to effectively manage day-to-day delivery operations. Most understand this reality and readily look for external expertise. In fact, working with high quality service providers was the preferred solution to retailers' arduous transportation requirements:

| Transportation Strategies | Rank |
|---|---|
| Use capable service providers | 1 |
| Enhance transportation processes | 2 |
| Adopt transportation technology | 3* |
| Collaborate with major retailers | 3* |

* tie

This strategy is not always as simple as tendering freight to a CPG company's preferred trucking company. Instead, the CPG company may need to play the role of matchmaker and identify carriers with existing retailer relationships, a track record of success, and proper geographic coverage. Building alliances with a retailer's preferred service providers is a path to priority delivery appointments and problem resolution.

While these service providers are the delivery experts, the CPG company cannot relinquish control of product flows. They must meet regularly with the service provider and monitor service quality using the same KPIs that retailers benchmark CPG companies against. "Trust but verify" is a logical mantra to ensure that focus is maintained and retailer financial penalties are avoided.

> ***"When a category manager says that they have a preferred transportation provider, you should be dialing that number now."***

### Strategy 2 – Break Free of Dock Congestion

Dealing with receiving dock bottlenecks at retail DCs is a huge frustration for CPG manufacturers. With complaints ranging from inefficient receiving personnel to frequent appointment rescheduling, getting product delivered on-time seems to be an insurmountable task.

While there is no universal solution to this problem, sticking with the status quo is pointless. The adage: *insanity is doing the same thing over and over again but expecting different results* applies to the retailer receiving problem. Different tactics are needed.

Rather than contribute to the bottleneck, mid-sized companies must be nimble and propose creative solutions to retail DC traffic jams. Potential options include: delivering goods at off-peak hours, establishing standing appointments, using unattended unloading, and consolidating deliveries.

Though perfect buy-in from retailers may not be achieved, successful outcomes can be achieved by mid-sized manufacturers. One organization's Vice President of Logistics pitched a fixed delivery schedule to major retailers. Only one refused to participate and now the company enjoys a much more stable delivery process.

> ***"Our VP proposed a fixed delivery schedule last year to major retailers. Only one refused to participate."***

### Avoiding the LTL Trap via Technology: An Example

Rather than build dozens of individual LTL deliveries and battle the subsequent dock congestion issues, a mid-sized manufacturer of baking mixes is using technology to ease the burden. The company uses a TMS to identify opportunities to build multi-stop truckload deliveries out of LTL freight. "The TMS has our LTL rates loaded in it. If the combination of those LTL rates is greater than the multi stop truckload cost with stop-offs, it will build that load," notes a company executive.

Other mid-sized CPG companies skip this technology purchase. Instead, they leverage the TMS investments of their 3PL provider. TMS vastly improve a mid-sized manufacturer's ability to manage flows, maintain in-transit visibility, and control delivery costs. These systems supplement in-house and 3PL provider expertise to deal with the complexity of retailers' changing delivery requirements.

### Strategy 3 – Leverage 3PL Capabilities

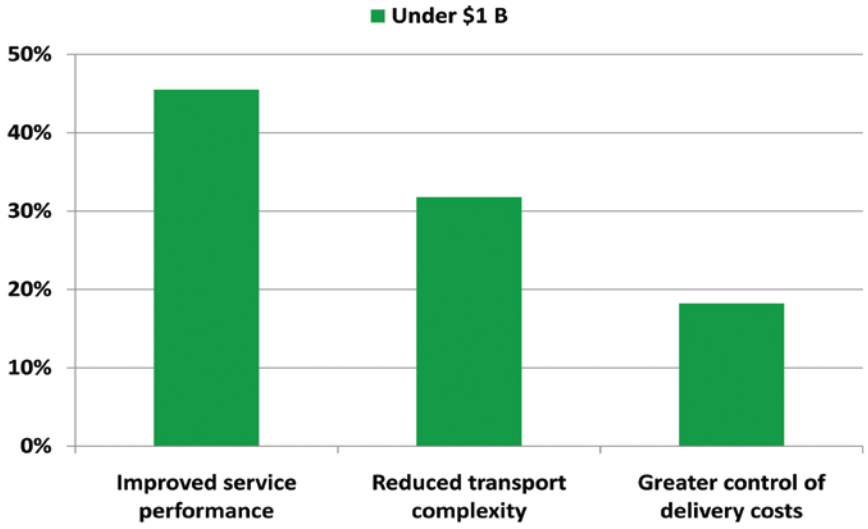
As the previous table indicates, the respondents' leading strategy for improving compliance with transportation requirements is to use capable service providers. Many mid-sized manufacturers also indicated that they lack clout with retailers. Low volume, overtaxed resources, and limited communication are cited as the primary culprits. The impact is an inability to engage retailers in meaningful conversations about transportation issues.

According to the interviewees, a logical response to clout challenge is to enlist the resources of a powerful advocate. These mid-sized manufacturers entrust their fulfillment and delivery processes to highly capable 3PL providers. These service providers leverage the combined volume of multiple CPG manufacturers into strong relationships with major retailers.

> ***"We are scrappy, detail-oriented, and aggressive as the day is long, but we can only do so much. Experienced 3PLs help us handle major challenges."***

Beyond the clout factor, the mid-sized CPG manufacturers rely upon 3PL providers to integrate transportation and warehousing capabilities. This one-stop fulfillment solution promotes seamless movement of goods, simplifies relationships, and reduces conflict for the manufacturers. As these integrated capabilities are spread across multiple clients, delivery requirements compliance and complexity reduction are achieved by the mid-sized CPG manufacturers.

**Benefits of Using 3PL Service Providers**




Some mid-sized CPG manufacturers build long-term relationships with 3PL providers. Working closely with a trusted partner promotes a more strategic approach to retail transportation challenges. Interviewees noted that the 3PL partner takes on an important advisory role and provides ad hoc project team capabilities that mid-sized manufacturers cannot create internally. This paves the way for a three-way relationship between the manufacturer, its 3PL partner, and retailers to collaborate on transportation initiatives.

## The Takeaways

The task of conforming to retailer mandates for rapid, tailored delivery methods is a major challenge. To effectively serve these demands and level the playing field, mid-sized CPG manufacturers should:

- Use high quality, retailer preferred carriers to avoid service failures and chargebacks.
- Adopt consolidation, off-peak appointments, and TMS tools to minimize DC dock congestion.
- Leverage 3PL providers with retail expertise to offset volume and influence constraints.

Ultimately, a flexible and resourceful mindset is needed to succeed in this stringent, "comply or be fined" environment. As one mid-sized manufacturer put it: "The big boys have all the access, resources, and leverage. We have to be more creative and innovative to maintain our relationship with retailers."

# On the Horizon: Impending Issues & Opportunities

Serving the retail community generates a never-ending to-do list, particularly for mid-sized CPG manufacturers. They must stay attuned to the perennial challenges related to inventory control, fuel costs, and capacity utilization. Other supply chain issues arise as economic conditions and retailer requirements change.

During the interviews and again in the survey, we asked CPG professionals about their hot button issues. They articulated concerns that warrant substantial attention in the near future.

### Demand Planning Capabilities

The retailer drive for lean inventories creates a significant challenge for CPG companies. They must accurately predict demand in order to keep retail shelves well-stocked. This requirement is capturing the attention of mid-sized companies.

Innovative CPG companies recognize the impact of accurate demand planning on supply chain success. They believe that business analytics tools will help them derive greater insights from retailer promotional plans, POS data, and other leading indicators. In the near future, this knowledge can be translated into more accurate forecasts.

### Vendor Managed Inventory

Mid-sized CPG manufacturers face intense pressure to control costs and improve service. One option to address this dual challenge is to implement a vendor managed inventory (VMI) program. The CPG company is responsible for monitoring retailer sales and in-stock status, creating inventory plans, generating orders, and replenishment.

Multiple mid-sized manufacturers expressed an interest in having the much greater control over inventory in the retail channel that VMI affords. They believe it is possible to replicate the VMI success of their larger competitors.

> ***"We're taking a look at VMI as a strategic initiative with certain customers. It would give us visibility to the customer's DC and ultimately to the shelf."***

### Greater Cost Knowledge

Understanding the cost to serve is an area of growing importance for CPG companies. It is essential to understand supply chain cost trade-offs when considering process changes. In addition, retailers are demanding more granular financial data from their mid-sized CPG suppliers. One interviewee noted: "Retailers are constantly asking us to justify our transportation costs and pricing structures."

Mid-sized CPG companies are investigating how to capture more accurate cost information. They realize that it is the linchpin to effective bracket pricing and evaluation of retailer service requests. They are challenged to improve cost knowledge in the face of increasing complexity.

### Freight Control Skirmishes

A growing concern among mid-sized companies is the practice of retailers taking greater control of their inbound freight. The desire to increase private fleet utilization has prompted some retailers to expand their pursuit of backhaul opportunities. Other retailers are dictating the use of their preferred carriers to manufacturers.

Though both tactics can promote supply chain efficiency, a common concern among CPG professionals is a lack of retailer expertise and follow through regarding inbound transportation.

In particular, mid-sized manufacturers are impacted by this emerging strategy. They are challenged to gain competitive pricing from the retailers' preferred carriers. They also worry about a lack of leverage to hold a retail private fleet accountable for delivery standards.

> ***"Some retailers have taken responsibility for their transportation, but don't perform as well as our carriers. If they fail to keep an appointment or their carrier does not make it to the destination on time, we are still accountable for the out of stock."***

### Technology Implementation

Supply chain technologies represent both an opportunity and a potential headache for mid-sized CPG manufacturers. Lured by promises of greater process efficiency, cost control, and visibility, many of these companies are adopting the planning and execution tools discussed throughout the report.

While cloud-based access and well-tested software improve the likelihood of adoption success, issues remain. Multiple CPG supply chain professionals cited implementation and integration of these new tools as their next major challenge. Return on investment is also on the minds of supply chain software buyers.

### Proactive 3PL Expertise

The collective set of challenges facing mid-sized CPG manufacturers is daunting. They often lack the internal resources and expertise to develop innovative supply chain solutions. Hence, relationships with 3PL providers must evolve beyond execution activities and KPIs.

The logical progression is a more strategic partnership. Access to an aggressive 3PL provider that develops creative solutions to retail chain problems is imperative for mid-sized companies to achieve supply chain excellence.

> ***"Our 3PLs need to tell us what we can be doing better. You're the experts, so develop proactive initiatives that will help our business."***

### The Takeaways

As retail supply chains become more complex and advanced, mid-sized CPG manufacturers must keep pace with the litany of demands. The six issues and opportunities discussed here warrant the strategic consideration of supply chain executives. Proper attention and response will have a positive impact on organizational success.

# Summary

**Final Remarks from the Supply Chain Challenges Study**

Mid-sized CPG manufacturers face a particularly difficult challenge to remain competitive in the current environment. As highlighted in the pages of this report, they do not operate from a position of strength. Retailers have become more cautious and demanding after the Great Recession and larger competitors have the upper hand in terms of collaboration and process alignment.

However, these mid-sized companies are not waving the proverbial white flag. They are making strategic investments in technology, partnering with 3PL providers, and modifying fulfillment processes in a push to level the playing field. Their goal is straightforward but very challenging – meet the stringent KPI requirements of retailers without abandoning internal cost control needs.

Ultimately, success will be hard earned by mid-sized CPG manufacturers that forgo the status quo in favor of the fresh ideas discussed in this report. That is the path to prosperity, according to a CPG supply chain executive: "To grow, we need to adapt our supply chain and create innovative offerings to meet retailer requirements."

# About the Authors

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Throughout his 18 year academic career, Dr. Gibson has been widely recognized as an innovative supply chain educator. He is actively engaged in corporate training, executive education, and distance learning programs. Dr. Gibson serves on the RILA Logistics Steering Committee, the CSCMP Professional Certification Committee, and is an Accenture Academy SCM content developer.

Dr. Gibson's academic experience is complimented by nine years of retail distribution management experience. He has published over 50 SCM articles and is lead researcher for the annual *State of the Retail Supply Chain Report*. Dr. Gibson also serves as author of *Supply Chain Essentials* e-textbook, and co-author of the market-leading textbooks *Supply Chain Management: A Logistics Perspective* and *Transportation: A Supply Chain Perspective.*

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Since entering academia in 1996, Dr. Hanna has been actively involved in teaching traditional and executive education courses. He has also conducted a variety of research studies and directed corporate training sessions for several companies. Joe has also been an active member of several professional organizations including TIA and CSCMP.

Dr. Hanna has published over 50 supply chain related articles, served as co-author of a logistics textbook, and has participated in several government and privately funded research projects. Prior to entering academia, Dr. Hanna worked for Phillips Petroleum (now ConocoPhillips) and Coopers and Lybrand (now PriceWaterhouseCoopers).

# About the Organizations

### Auburn University Supply Chain Management Program

The Supply Chain Management program brings the unchanging values of Auburn University – practical education and research, honesty, and hard work – to a changing world. We actively collaborate with supply chain professionals to ensure that our research, academic degree programs, and industry outreach events effectively reflect current supply chain theory and application. Auburn SCM graduates are well-prepared for the classroom-to-workplace transition and our alumni enjoy successful supply chain careers with retail, manufacturing, 3PL, transportation, and service firms. Visit www.business.auburn.edu for more information.

### KANE

KANE (Kane Is Able) is a third party logistics provider that helps consumer packaged goods (CPG) companies distribute goods throughout the United States. KANE's value-added CPG logistics services include integrated distribution, contract packaging, and transportation solutions specially designed to meet the needs of CPG manufacturers.

Founded in 1930 by Edward Kane as a one truck operation during the Great Depression, KANE remains a family-owned and professionally managed company dedicated to delivering world-class quality with exceptional customer service. Visit www.kaneisable.com for more information.