A DynaSys Leadership White Paper DSCP for Consumer Products

How Can Consumer Products Companies Compete as Supply Chains Grow in Complexity?

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A DIVISION OF QAD

CONTENTS

Introduction **3**

Consumer Products Market Trends **3**

What Keeps the Consumer Products Manufacturer Up at Night? **4**

Big Picture Effects **5**

Integrated Demand and Supply Chain Planning: **5**

Benefits and Getting Started **6**

HOW CAN CONSUMER PRODUCTS COMPANIES COMPETE AS SUPPLY CHAINS GROW IN COMPLEXITY?

INTRODUCTION

Consumer products manufacturers aim to deliver the right product to the right place at the right time in the right quantity. Achieving that goal is complicated by meeting the simultaneous requirements of managing margins, pursuing growth and satisfying consumers. Manufacturers who attain operational excellence – minimizing inventory, maximizing manufacturing efficiency and controlling material costs – often prove successful at reaching all their product and business objectives. It all starts, however, with properly synchronizing demand and supply chains. Many consumer products companies struggle with demand and supply chains synchronization, due to:

- **Misaligned Planning:** Sales, Operations and Finance may make plans that only address their departmental needs, in silos, rather than the strategic requirements of the company.
- **Volatile Customer Demand:** Market conditions change demand frequently if not continuously. Meeting consumer product preferences and service expectations may suffer without timely demand insight.
- **Lack of Operational Visibility:** Visibility works both ways – from manufacturing to supply chain and vice versa. Inventory, distribution and manufacturing not linked to supply chain processes stress margins.

Not meeting these many challenges may lead to generally weak business performance and unsatisfied customers. Unsynchronized plans impact every aspect of the business, from procurement to production to delivery, reducing profitability and competitiveness.

It is no wonder that many consumer products companies are exploring the use of integrated demand and supply chain planning solutions and processes. The resulting synchronized plans improve customer service, minimize costs and increase profitability. Let's explore in more detail the external and internal challenges facing consumer products companies today, and then examine how integrated demand and supply chain planning helps turn those challenges into positive business outcomes.

CONSUMER PRODUCTS MARKET TRENDS

The consumer product industry changed dramatically over the last three decades. The rate of change remains unabated today. Those changes complicate the planning process and overall management of supply chain operations. Specifically:

- **Marketplace:** Where and how consumers buy their products has utterly changed. Mega-stores, club stores and super-centers have transformed delivery and distribution. Convenience stores have expanded to sell more items. Years ago you could buy a candy bar from a vending machine. Today you can buy a mobile phone or audio system from a vending machine. The ability to purchase goods through Internet-connected devices has turned your home, car, the town park, virtually anywhere into the world's largest department store. This expansion of the potential points of sale has complicated the demand model, creating fresh challenges in product forecasting, material procurement, distribution and transportation.

HOW CAN CONSUMER PRODUCTS COMPANIES COMPETE AS SUPPLY CHAINS GROW IN COMPLEXITY?

- **Products:** Product innovation in all sectors of consumer products is growing at an incredible rate, compressing product lifecycles. Technological advances and consumer preferences increase the volume and variety of products produced, stored and shipped. The number of private label and store brands has similarly increased. As a result, manufacturers need to run more promotions to keep up or pull ahead of competitors. Adding and removing products more frequently may cause inventory costs to rise. Instability in product mix and volume strain all business processes at a manufacturer, including complicating business planning and supply chain operations.
- **Regulatory:** Governmental and independent safety agencies amend product safety guidelines at a rapid rate, perhaps faster than at any point in history. New and updated regulations have a wide impact, not just in terms of compliance, but also in terms of operations. For example, newly mandated testing in the manufacturing process can disrupt production flow. Regulatory compliance impacts supply chains from top-to-bottom and require constant management to limit the interruption on supply chain cycles.
- **Consumer Behavior:** Today's consumer is a more educated and less patient buyer. The Internet gives consumers access to product research and to a far wider range of products. It has also increased expectations of customization to meet specific taste and preference. The connected buyer puts pressure on manufacturers in terms of product design flexibility and product delivery timeliness – and complicates supply chains.

The consumer products industry has transformed considerably over the last three decades. Unless consumer products manufacturers embrace the trends associated with the transformation, they compromise their ability to complete. In additional to external conditions, consumer products companies deal with their own internal challenges.

WHAT KEEPS THE CONSUMER PRODUCTS MANUFACTURER UP AT NIGHT?

Executives and managers in a consumer products company must deal with a host of day to day operational issues and challenges that are core to the success or failure of their business, including:

Customer Service and Keeping Customers: It is easy to lose a customer today. Missing or being late on an order can reduce customer satisfaction and damage loyalty. Repeated lateness across a large number of customers can damage the brand. If you lie awake at night wondering how to improve service levels, eventually you will understand that the ability to accurately predict demand is a core ingredient to customer satisfaction and loyalty. It helps you know when and where customers will want products, enabling you to manage accordingly.

Manufacturing Efficiencies: Equipment is expensive to maintain, shop floor employees need to be kept busy, production schedules always change and materials are often late and sometimes wrong or damaged. Management must make decisions about overtime, about moving employees to different production lines and dealing with unplanned machine downtimes, all in pursuit or how to meet the current schedule. These are just some of the issues that make production managers' lives difficult, with the increase in supply chains complexity contributing to the mix.

Inventory Management: Finished goods, work in process, raw materials and supplies are all part of your inventory stock. It is a constant challenge to make sure that the right materials and products are at the right place in the right amount. Stock outs are undesirable, but so are high inventory costs and obsolete inventory. Excess inventory ties up capital while inventory shortages delay customer orders.

HOW CAN CONSUMER PRODUCTS COMPANIES COMPETE AS SUPPLY CHAINS GROW IN COMPLEXITY?

BIG PICTURE EFFECTS

Issues like weak customer service, poor manufacturing efficiency and high inventory costs are real problems, but sometimes there are bigger picture root causes underlying the problems. Strategy and senior management culture have often subtle but considerable effects on operations and the supply chain. Here are some examples:

Mergers and Acquisitions: Organizations can add to the bottom line quickly by adding or subtracting divisions or product lines. Being part of an organization involved in a merger (depending upon which side you're on) can be frightening. Are you doing the right things to grow your portfolio of brands and companies? Can your current processes and supply chain structure handle new lines of business or company additions?

Risk Management: Potential supply chain disruption is the biggest threat to a third of businesses in the manufacturing sector according to research released by BSI, the business standards company, and the Business Continuity Institute (BCI). According to the research, 77% of manufacturing firms report increasing supply chain complexity as the fastest growing risk in business continuity, with malicious attacks via the internet (68%) and increased regulatory scrutiny (58%) taking second and third place. Other factors come into play as well such as government unrest, political issues, environmental concerns and natural disasters. Still, often senior management doesn't take risk management seriously enough. Many consumer products companies operate in a reactive mode to business disruptions. Plans are not in place to identify and manage many of the risk factors that face manufacturing.

Lack of Communication and Collaboration: Manufacturing organizations have operated in silos for years. Each department has its own goals that need to be attained, which may conflict with other departmental or even corporate objectives, undermining your organization's long term success. For example, purchasing may drastically increase the quantity of a particular part being ordered to get a better individual item price. On the surface, the procurement team saved the company money. Once entered into inventory, however, the extra parts are valued at standard cost and inventory dollars rise, offsetting procurement's cost saving. Better communication between the departments can minimize these issues. Do these situations happen to you?

Unplanned disruptions will happen as will business restructuring. Communications breakdowns will occur between the strategically oriented and the tactically oriented. These big issues, and their risk, however, can be better managed using the right supply chain processes and technology tools, which will accrue in terms of long term success. The goal is to stay ahead of the issues and ahead of the competition.

INTEGRATED DEMAND AND SUPPLY CHAIN PLANNING

Connecting People, Processes and Supply Chains for Operational Excellence

The most effective enterprises in the consumer products industry today have a formalized process for integrated demand and supply chain planning. That process goes by several names, including Sales and Operations Planning (S&OP), Integrated Business Planning (IBP) and Integrated Demand and Supply Chain Planning (IDSCP). The idea is for the consumer products manufacturer to develop a foundation for synchronizing its people, processes and supply chains to take advantage of trends and quickly bypass associated roadblocks.

HOW CAN CONSUMER PRODUCTS COMPANIES COMPETE AS SUPPLY CHAINS GROW IN COMPLEXITY?

Integrated demand and supply chain planning is a mindset, a philosophy for managing the business. It is a day to day approach that coordinates strategic, tactical and daily planning functions to minimize risk and costs while improving customer service. Traditional departmental silos are removed and replaced by a single integrated demand, deployment, production and procurement plan actionable by the entire company.

One purpose, one plan, one outcome equals success. Does this sound like your company? Many consumer products companies excel at integrated planning and your company can too. What are some of the key characteristics of integrated supply chain planning?

- **Common vision between management and functional departments.** Collaboration between management and functional teams is critical for long term success. Synchronized and agreed-to plans alert management to critical issues, helping them to make decisions quickly and resolve problems in a timely fashion. It ensures that everyone is managing and operating toward the same goals.
- **Clear and formal communication between all critical functions of the business.** The silos are removed. Customer Service, Distribution, Sales, Marketing, Production and Product Development are on the same page. A single forecast reflects all departments working together towards to determining the right number. Accurate distribution plans minimize distribution costs. Accurate production plans minimize production disturbances and unnecessary changeovers. Accurate procurement plans minimize purchasing costs and ensure materials arrive on time. New products are introduced quickly and delivered when needed to the market, while old products are phased out on a timely basis to minimize obsolete inventory. Your customers get what they want when they want, making you more profitable.
- **All planning levels are aligned.** Successful companies have aligned their strategic, tactical and operational planning levels. Operational plans are used to execute the day to day business functions, but to be truly effective the day to day plans must be in synch with the long term strategy. Satisfying a customer today does not ensure long term growth if it disrupts the long term strategy.
- **Create alternate scenarios to plan ahead of problems.** By planning the overall supply chain, potentially critical situations can be identified before they happen. Then, various alternate scenarios may be generated to restore balance between supply and demand while complying with corporate strategy. An efficient agenda can be proposed for the next S&OP meeting, incorporating a list of critical problems and potential resolutions.

BENEFITS AND GETTING STARTED

Integrated planning provides vision, stability and a process that enables companies to establish precise, but adaptable, long term plans. While there are many intangible long-term benefits, there are several near-term benefits that support a quick ROI, including:

- **Improves customer service.** Synchronized demand and supply plans result in improved product delivery, resulting in improved customer satisfaction and loyalty.
- **Reduces supply chain costs.** Coordinating all functions of the supply chain and operations streamlines the process and improves effectiveness which lowers costs.
- **Maximizes profitability.** Plans are optimally created by using one plan agreed upon by all levels of the organization minimizing pitfalls and allowing for maximization of profits.

HOW CAN CONSUMER PRODUCTS COMPANIES COMPETE AS SUPPLY CHAINS GROW IN COMPLEXITY?

How do you get started on a path to integrated supply chain planning? To reach your company's potential you need a partner capable of delivering a solution that helps you to quickly and successfully implement the needed processes and tools. Look for a supplying partner who can provide:

- Business process support.
- Demand Planning software that facilitates accurate forecasts based on multiple scientific and historical factors and related data.
- Distribution Planning software that facilitates positioning the right product at the right place.
- Production Planning software that facilitates making the right product at the right time while minimizing manufacturing costs.
- Procurement Planning software to ensure the right materials are being ordered at the right time.
- Easy-to-use tools to support inter-departmental collaboration, and to make it easy for management to align all applicable constituencies into the same planning and forecasting processes with shared goals that are monitored consistently.
- Do all of the above while minimizing IT infrastructure costs and IT personnel investments.

By choosing the right partner that provides valuable guidance, best practices and the supporting system, you can begin down the path of achieving operational excellence aided by effecting demand and supply chain planning.

Your Strategic Assessment: To find out how you can obtain a strategic assessment that will assist you in synchronizing your demand and supply chain planning processes, contact us at DynaSys or email contact@dys.com.

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