

Leveraging the ability of the supply chain to enable revenue growth

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Who am I?

- A management consultant
- I help companies make objective decisions about the best way to improve their results
- I'm not a Supply Chain specialist





Why am I here?

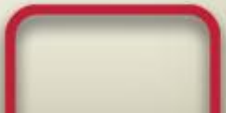
- My firm has a lot of experience in strategic supply chain management
- We want to share our point of view on how Supply Chain can drive strategy and revenue growth, and get your views





What are we going to cover today?

- The importance of Supply Chain to strategy and revenue growth
- The degree to which companies understand and leverage it
- Ways to ensure that Supply Chain realizes its strategic potential

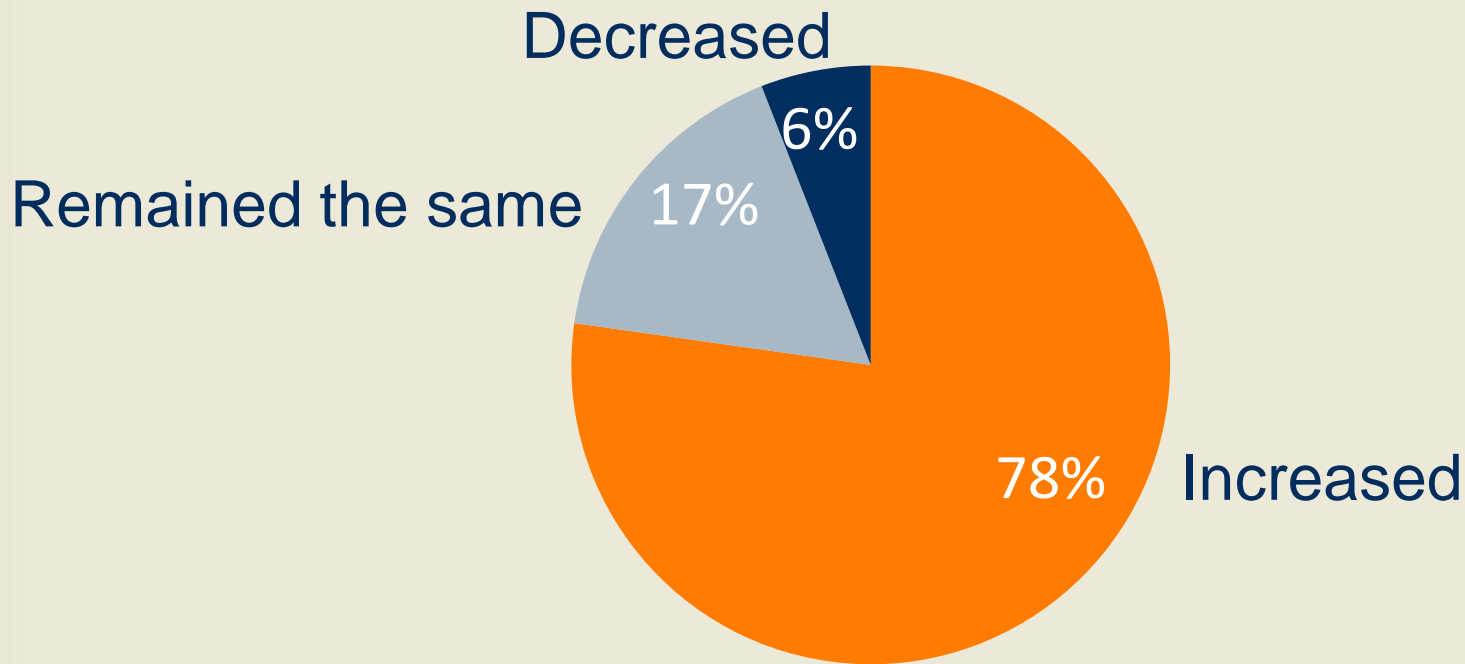




164 executives were asked ...

During the past 12 to 24 month
economic downturn, what happened to
the **emphasis on Supply Chain
improvements?**

The importance of Supply Chain is rising



% OF RESPONDENTS, N = 164

Source: Council of supply chain management, Global survey of supply chain progress 2010



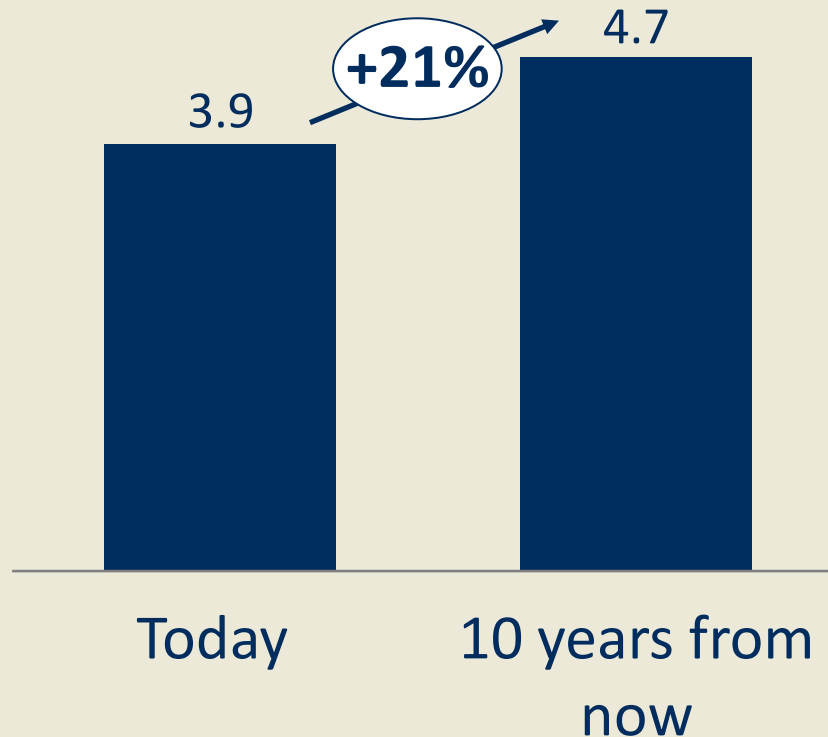
144 CEOs were asked ...

How would you rate the significance of your Supply Chain as a **driver of competitive advantage** on a scale of 1 to 5 now and in 10 years from now?



Supply Chain will increasingly drive competitive advantage

Highly significant = 5 →



Highly insignificant = 0 →

AVERAGE RANKING of 1-5, N = 144 CEOS

Source: The corporate executive board; The next generation supply chain, 2010

For many market leaders, the Supply Chain strategy *is* the business strategy

Business strategy

Supply chain strategy



Just in time custom computers

Mass customization through modularization



Lowest cost mass retailer


Drives vendors to reduce cost and integrate Supply Chains



Largest selection of consumer goods on-line and shipped on-time

Rigorous analytics and multi-tier inventory model





Supply chain improvements drive revenue growth in many ways

Driving costs down allows for more competitive pricing

Situation

Sales impacted by high price point

Insufficient margin to lower price

Waste and variances driving high COGS

Need to increase yield



Result

Re-designed sourcing and process

Improved margins by 50%

Reduced prices

Sales increased 2-3X



Variabilizing the cost base enables sustainability during uncertain times

Situation

Large fixed costs

Multiple sub-scale plants

Insufficient scale by location to drive excellence

Demand variability

Need to variabilize production costs



Result

Consolidated production in low cost location

Eliminated fixed costs and flexible capacity

Centralized sourcing and planning

Enabled competitive pricing during recession



Complexity reduction enables focus and growth

Situation

High SKU and platform complexity

High inventories and poor service levels

No clear brand positioning or marketing focus

Need to reduce complexity



Result

Reduced SKU count by 50%

Enabled better planning to improve service levels

Focused product portfolio on target segments

Improved service levels and sales effectiveness



Poor service levels were locking this client out of sales

Situation

Order process complexity
Inconsistent stocking policy
Poor and unpredictable service levels
Service levels are key customer buying criteria
Opportunity to improve value proposition



Result

Re-designed distribution network and shipping options
Designed uniform stocking policy
Improved IT and processes
Able to promise predictable service levels at point of sale*



Partnering with customers' supply chains can increase retention

Situation

Competitive long term supply agreement RFP

Product commoditized

Majority of customer total cost inside own operation

Opportunity to reduce customer costs without impacting own margins



Result

Reconfigured product for efficient shipping and handling

Introduced VMI

Featured customer supply chain savings in bid

Won long term contract with largest customer

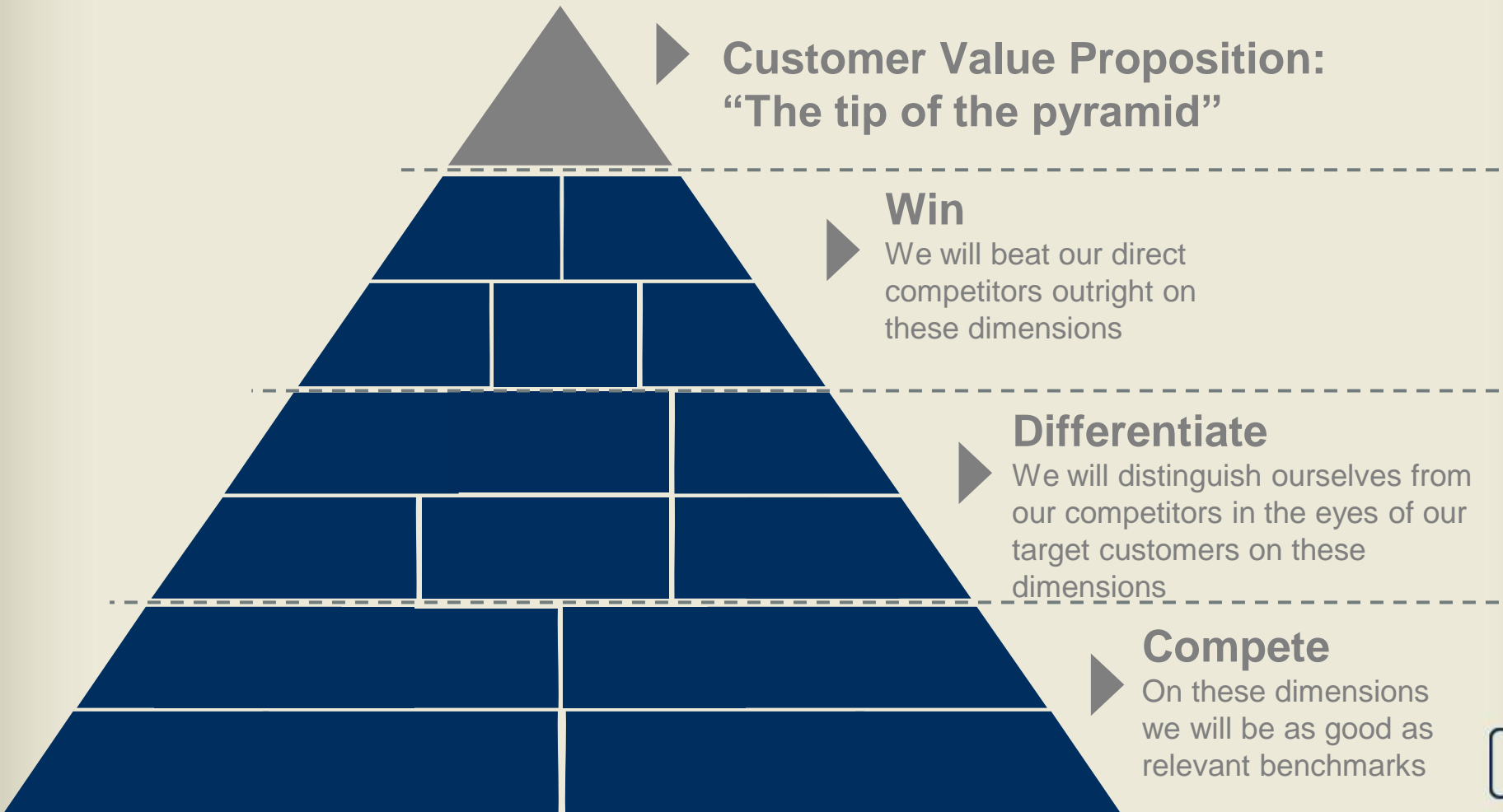




Supply Chain needs to help shape the company strategy....

...and set its priorities based on that strategy

Comprehensive strategy framework



Strategy should be executed *and* informed by key business functions

External inputs

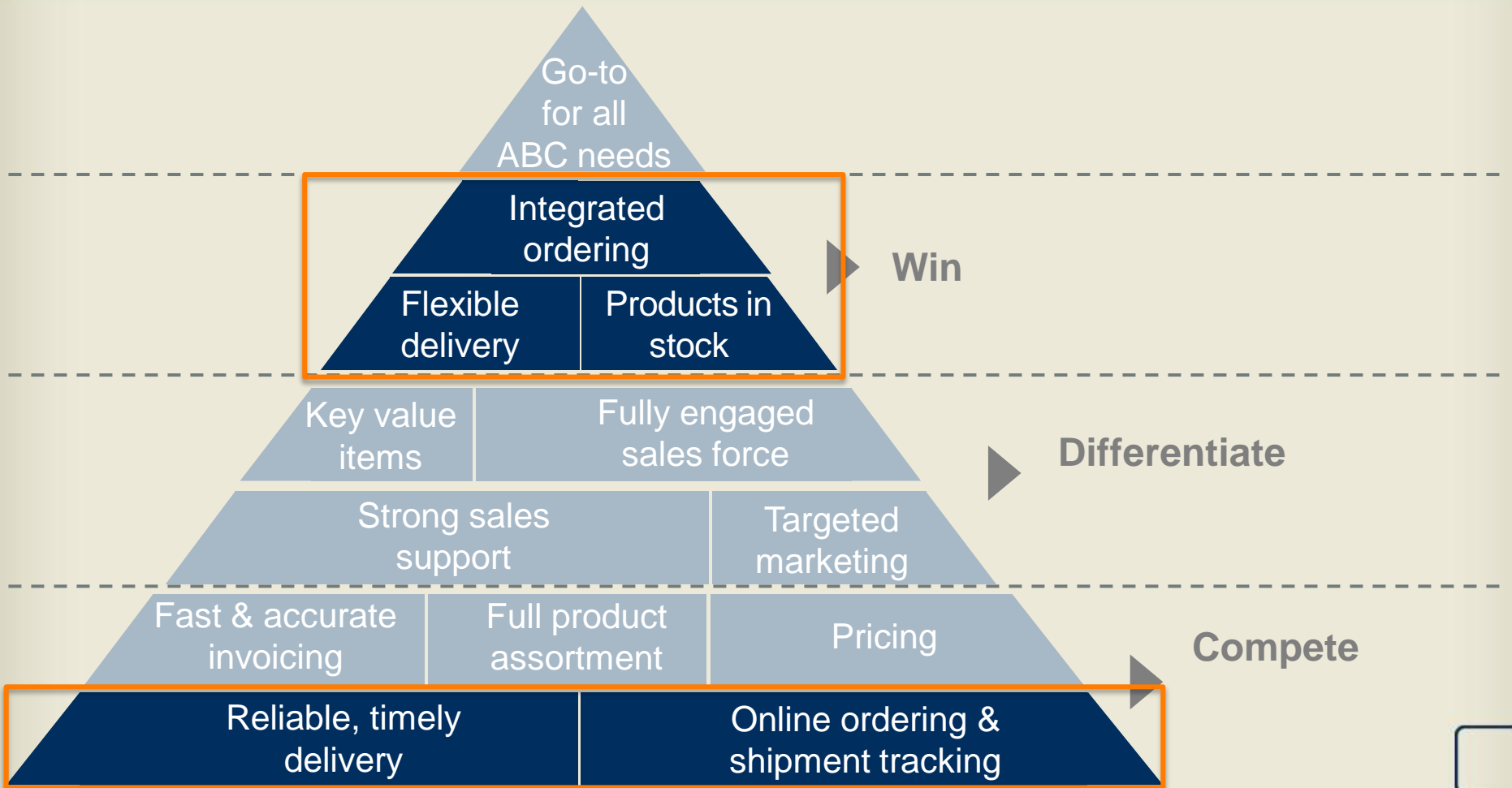
The definitive guide

The 'doers' who need to help build the strategy

The output



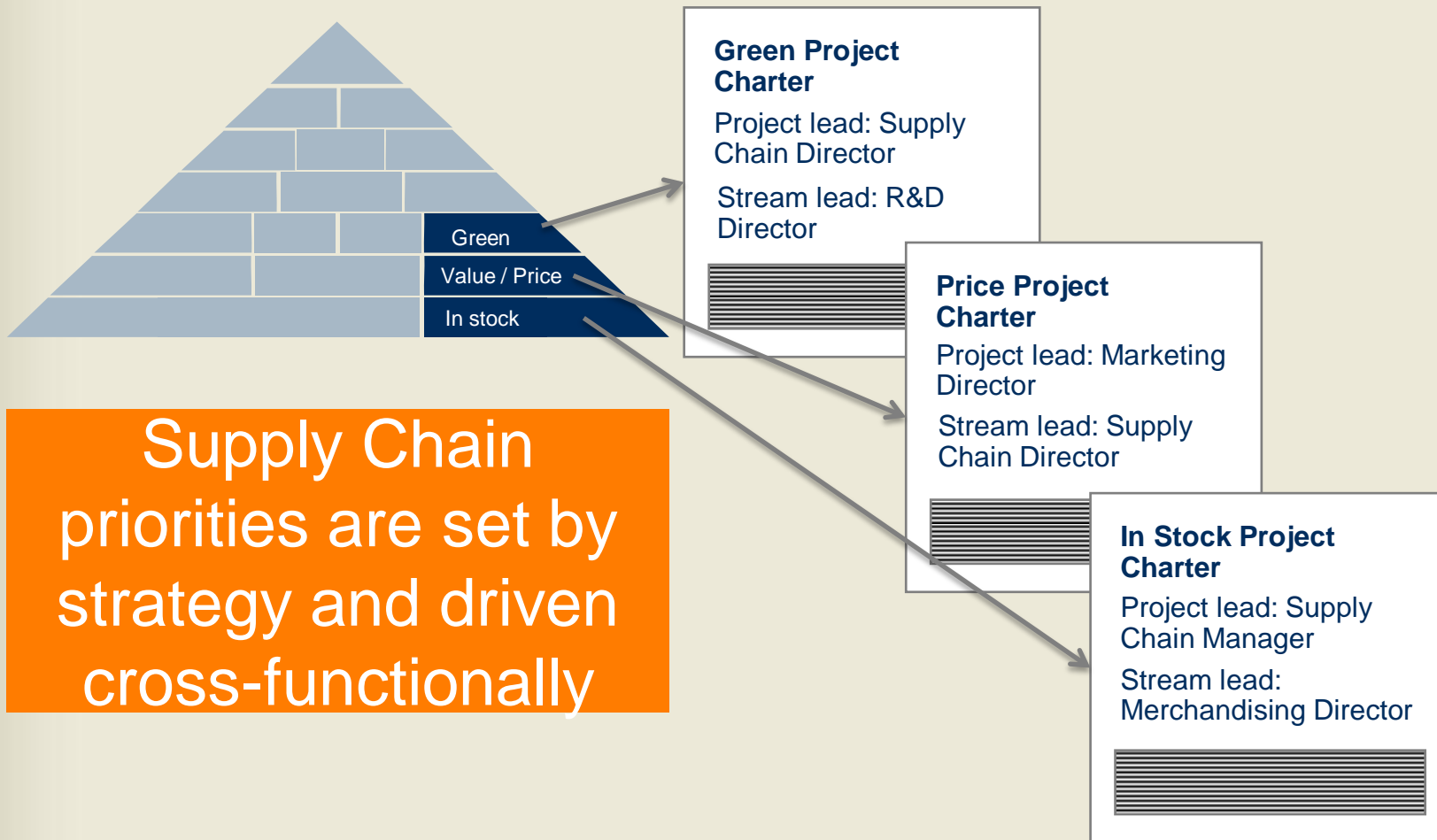
For commodity products, winning value propositions are often around service



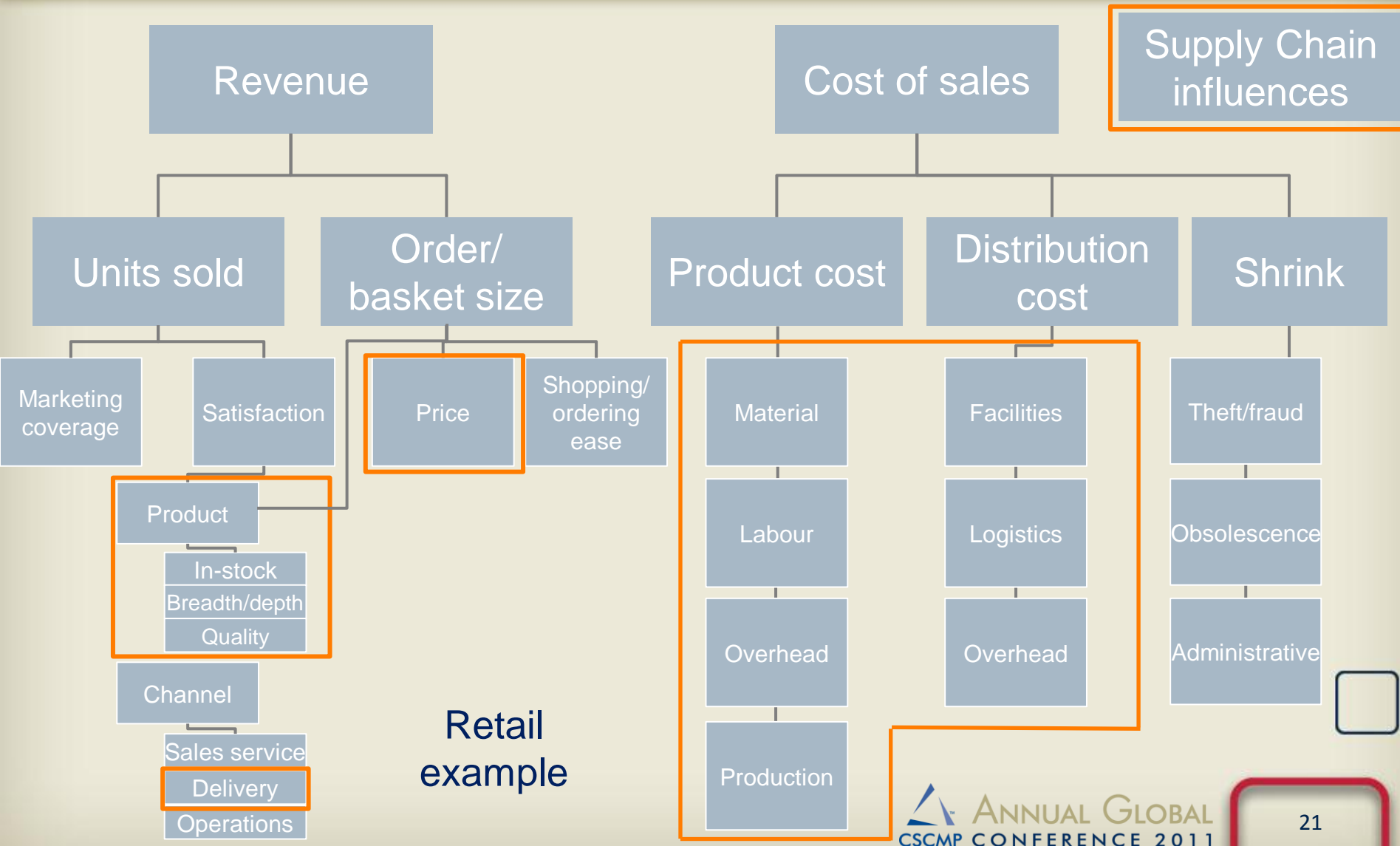
In mass retail, service level and cost are table stakes



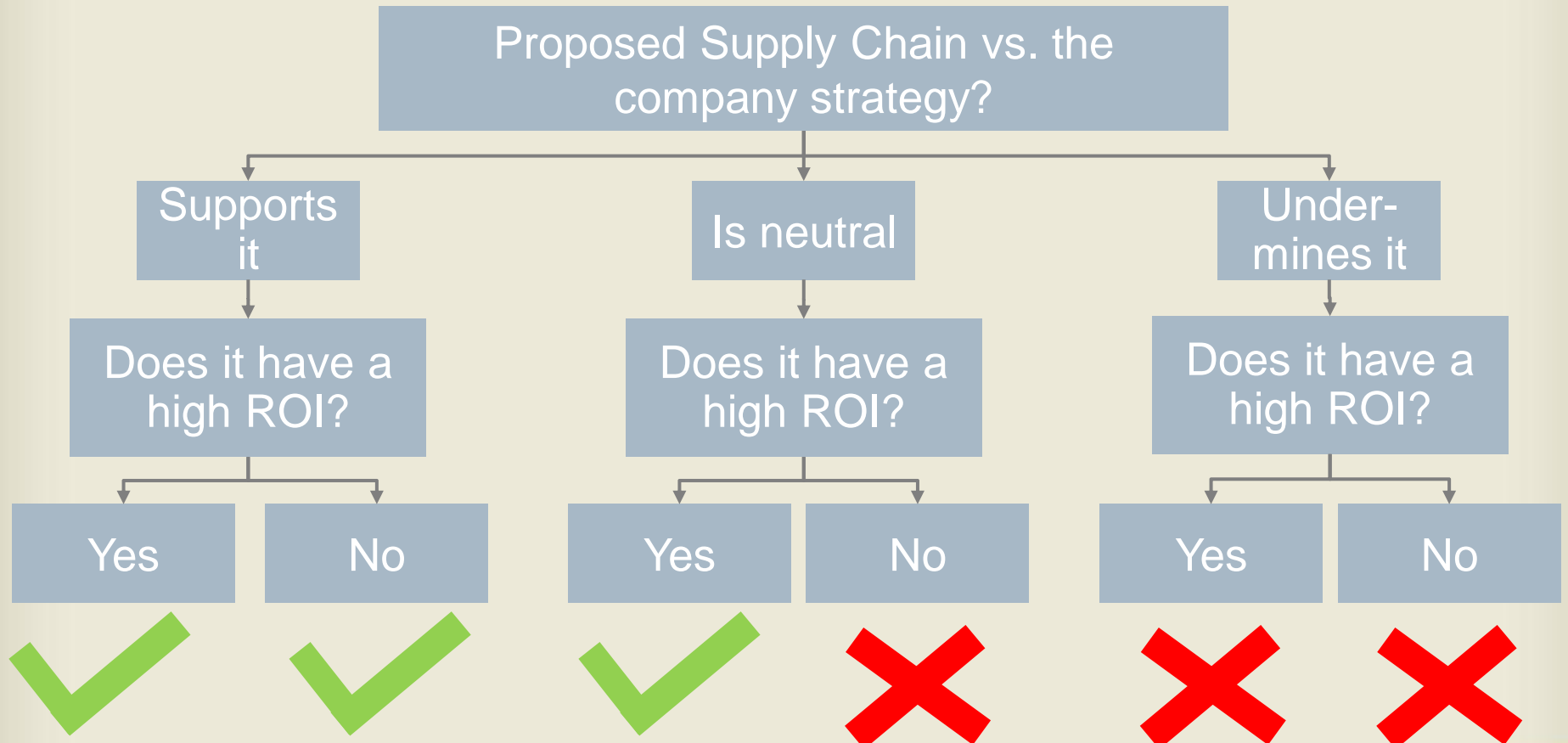
With the strategy set, strategic objectives will be aligned



Managers should be measured on how they drive *all* business metrics



Subsequent improvement projects should have a strategic compass





**Decision making isn't always
holistic....**



Supply Chain teams are concerned about alignment with strategy

“Supply Chain is often viewed as just the manufacturing component of the organization and not a strategic focus.”

Global director of operations






Supply Chain decisions are made in isolation

“Supply Chain initiatives are not usually driven by the C-level, they are more operational level and hence **driven in isolation by the VP Supply chain’s metrics.**”

Supply Chain management professional





Supply Chain revenue impact is not taken into account

“Many companies **consider supply chain to be a cost center** and haven’t really understood how it can be used to enhance revenue”

Supply Chain expert





Supply Chain executives don't ensure their voice is heard

“We don't do a very good job of selling the capabilities of our function....we're seen more as back office, as a cost centre”

Supply Chain professional



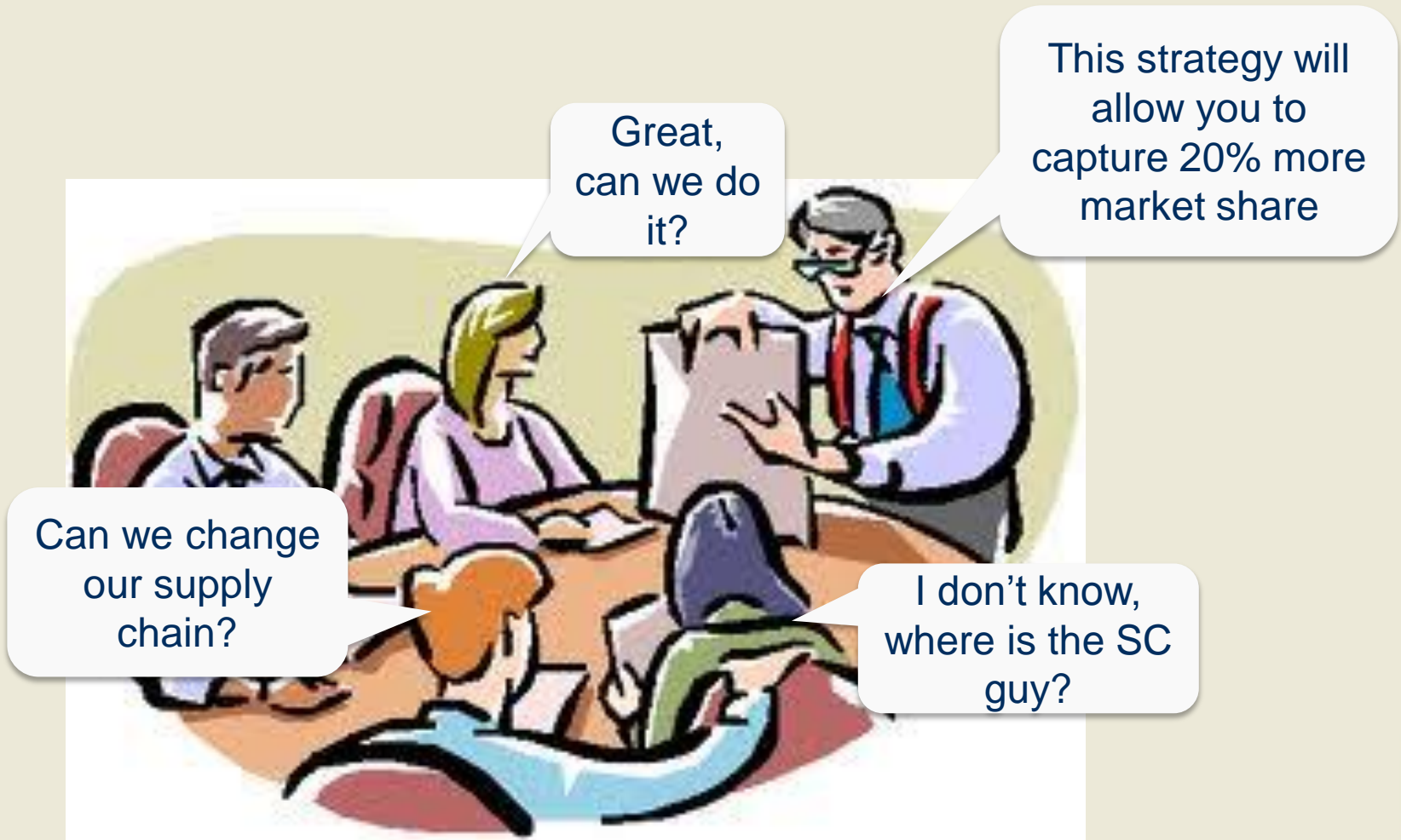


We know why companies often don't exercise holistic decision making...

Sometimes, there lacks a clear strategy to guide decision making



Other times, Supply chain is not in the room to create the business strategy



Supply Chain's strategic role is not always well understood....

...By Supply Chain themselves....

Our job is to create widgets and deliver them

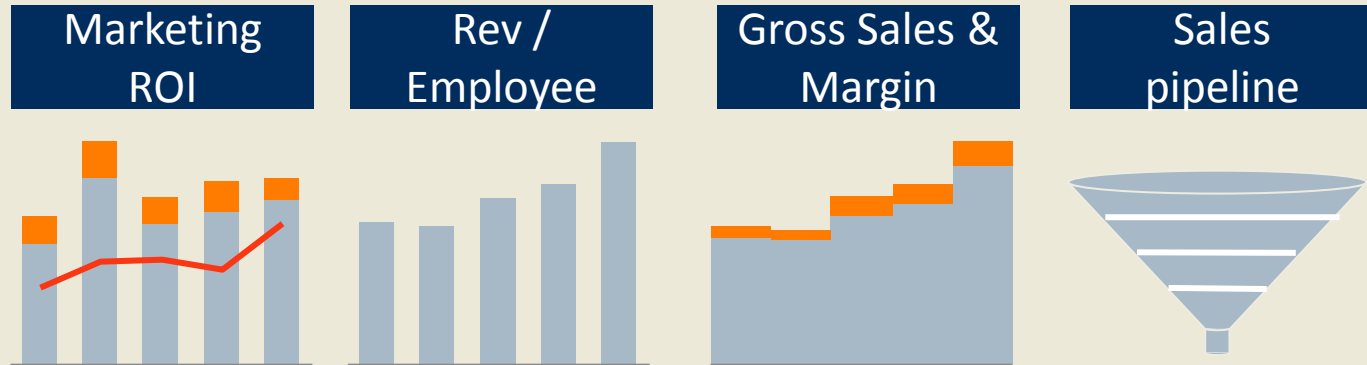


Their job is to make widgets as fast and cheap as possible

...And by the rest of the Organization

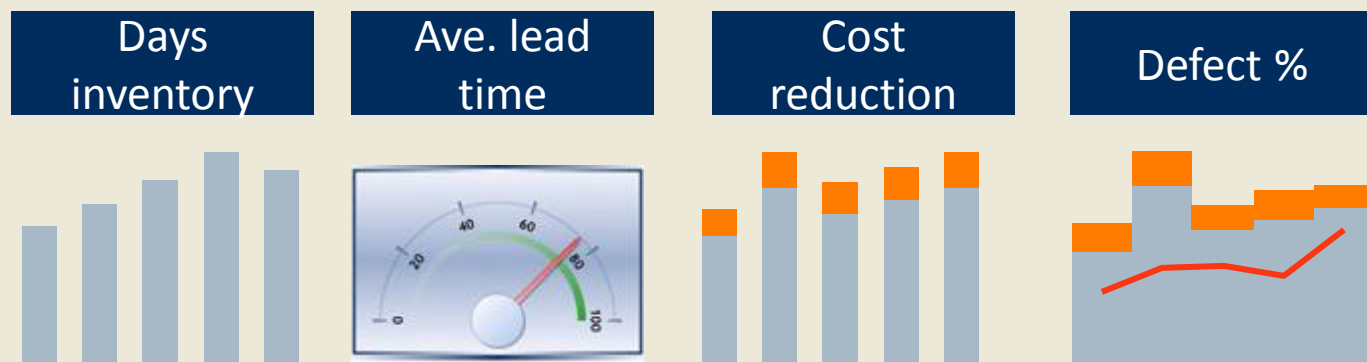
Measures are not always synchronized across functions

Corporate Dashboard



No linkages

Supply Chain Dashboard



Supply Chain decisions are sometimes made without strategy in mind

Supply Chain decision inputs

Reduce costs

Manage inventory

Increase service levels



Supply Chain decision process



Business decision inputs

Support the strategy

Drive revenue growth

Attain new customers



Higher impact initiatives can be missed or the value proposition could be negatively impacted





What is the best practice?

Best practice starts with recognizing Supply Chain as integral to strategy





Appendix

Complexity reduction studies





Complexity reduction can boost sales

- Cutting SKUs can raise revenues as carrying too many items can cause store clutter and increase consumer confusion
- Although some customers could leave the category due to product cuts, the sales increase can greatly outweigh any losses
- Research that included 110 companies in 17 industries revealed that companies with the lowest complexity grew 30-50% faster than their average competitors

Academic studies suggest divergent findings on top-line benefits (1 of 2)

Study	Situation	Findings	Sales
Zhang and Krishna (2007)	Investigated impact of SKU reduction on: category purchase incidence, brand choice and purchase quantity	They found that a moderate reduction in SKU count increases a brand's choice probability , whereas a deep cut decreases its chances of being chosen	↑
Boatwright and Nunes (2001)	Analyzed data from a grocery retailer where 94% of categories experienced dramatic cuts in the number of SKUs offered	Sales increased 11% on average across the 42 grocery categories examined; sales impact depends on how the reduction in items affects category features	↑
Iyenger and Lepper (2000)	Compared consumer reaction to small vs. large assortments of jams and chocolates	Shoppers were initially attracted to shelves offering large assortments, however, they were more likely to purchase from a small rather than a large choice	↑

Academic studies suggest divergent findings on top-line benefits (2 of 2)

Study	Situation	Findings	Sales
Broniarczyk, Hoyer & McAlister (1998)	Two stores eliminated 54% of low-selling SKUs	Stores sales increased 2% and 8% as customers found it easier to shop	↑
Drèze, Hoch and Purk (1994)	Measured the effectiveness of shelf positioning and facing allocations	Category sales increased by ~4% because of an increase in shelf facings of the high-selling items	↑
Borle (2005)	Examined effects of SKU reduction on store and category sales	Shopping frequency and purchase spending on each shopping trip declined as a result of SKU reduction	↓
Boatwright and Nunes (2004)	Examined purchase data in a SKU reduction field experiment	No significant changes in overall category sales due to SKU reduction were found	-

Estimating the revenue impact of complexity reduction can be estimated through a four-step detailed analysis

	Define zero complexity base case	Build offer to meet true demand	Define customer migration	Estimate revenue
Step	Select the most basic viable product offering	Add SKUs one by one to meet the most desired product needs	Define the likely behaviour of customers whose products are not included in the offer	Estimate the revised revenue
Activities	<ul style="list-style-type: none"> Conduct market research to analyze competitor offerings and consumer trends Determine which SKUs are 'nice to have' and which are 'must haves' based on historical sales and overall portfolio 	<ul style="list-style-type: none"> Build off of Step 1, by furthering matching market research with firm's product offerings 	<ul style="list-style-type: none"> Determine financial impact of the relatively small group of leaving customers Identify ways to try and retain prone-to-leave customers, if determined to be worth the effort 	<ul style="list-style-type: none"> Create model using historical sales plus forecasted changes with reduced SKUs