CPG Logistics

Five Strategies to Help Mid-Sized Manufacturers Compete and Win

A KANE Viewpoint

Consumer packaged goods (CPG) companies are getting squeezed. On one side, your retail customers want your product for less, with better service. At the same time your own company is pressuring you to reduce inventory and distribution costs.

The dilemma is particularly vexing for mid-sized CPG companies that lack the resources, systems capabilities and freight volumes larger competitors use to drive continuous cost and service improvements. One solution could be working with a third-party logistics provider (3PL) that understands the CPG supply chain. The right 3PL partner can help smaller firms generate big savings without major capital investments.

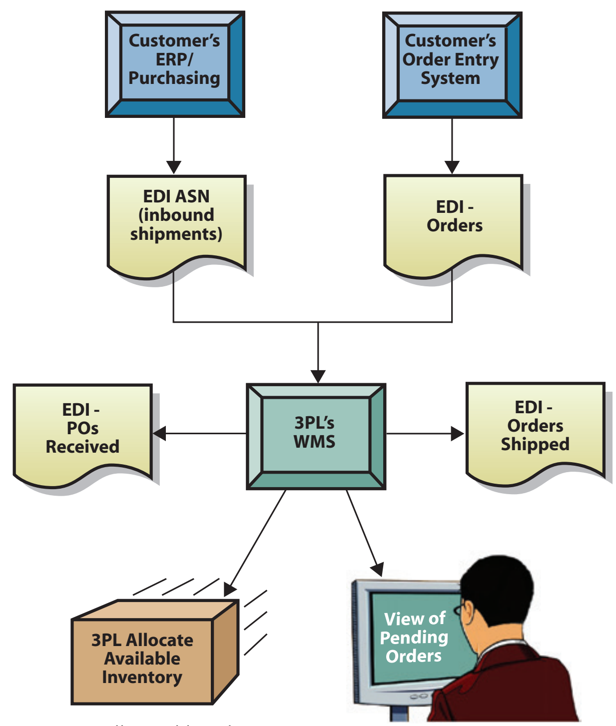
Here are five ways mid-sized CPG companies can leverage a 3PL to compete and win in the competitive CPG market.

1 Integrate Data from Sales and Fulfillment Systems

As CPG manufacturers move to just-in-time inventory models, there is not always enough on-hand inventory to satisfy orders. Allocating available inventory against current orders creates problems. For one, it's time-consuming to evaluate which customers should receive inventory. There's no algorithm to automate this subjective decision process. The allocation decision also invites personal bias, as customer service and sales representatives may steer available inventory to their own customers.

One solution is better integration of sales and inventory data. While this could be a barrier for smaller companies with limited systems resources, many 3PLs have the experience and resources to integrate data from multiple systems to facilitate decisions (see sidebar: Better Visibility).

In the case of overcommitted orders, a report can be created using data from order management and warehouse management systems. This real-time visibility to data, such as orders, inventory, and required availability date (RAD), enables faster, more intelligent decisions based on known facts. When combined with the company's unique knowledge



Inventory allocated based on customer-defined business rules.

Customers view order and inventory via the web or direct WMS access.

By integrating data from multiple systems, 3PLs can give customers real-time visibility to order and inventory data to aid daily decisions, such as inventory allocation.

of the retail customer, decisions can made based on customer priority, not a "first-in, first-out" model that risks disappointing key customers.

2 Partner With Other Shippers (even competitors!) to Control Logistics Costs

Mid-sized companies struggle to compete with large rivals since they lack the same economies of scale. For instance, without the freight volume smaller companies must use higher-cost, less-than-truckload (LTL) shipments.

One way for these CPG companies to level the playing field is "coopetition" – working together with other CPG firms, even competitors, to act as one large company (see sidebar on Playtex and Ascendia). 3PLs that specialize in CPG clients are in an ideal position to enable this strategy because they have relationships with multiple shippers.

Load consolidation is an excellent "coopetition" strategy. Many CPG companies ship to the same customer locations via LTL. Logistics companies can use specialized transportation management systems to identify consolidation candidates. For instance, the system may identify three 3,000-pound shipments from three different companies moving to the same customer or region – all with the same delivery date. That freight can be consolidated onto one truckload shipment, either direct to the customer (the biggest saving) or to a regional pool point for local delivery. Good for the shippers, who extend the lower-cost TL segment of the move. Good for retailers like Wal-Mart, who reduce their own costs by receiving the same volume in one truck, not three.

Impact of Load Consolidation on a Mid-sized CPG Manufacturer

Annual LTL spend	Spend for same volume of freight after consolidation	Annual freight savings
$632,000	$467,680	$164,320

Better Visibility Helps Candy Maker Speed Decisions on Overcommitted Orders

For Just Born, Inc., makers of popular candies such as Mike & Ike®, Hot Tamales® and Peeps®, overcommitted orders are a fact of life. The company does not want products sitting in the warehouse for long periods, so there is a constant flow of inventory from the factory and a high turn rate at the warehouse. A surge in orders can result in temporary inventory shortfalls. In the past all orders, including overcommitted orders, were sent to the distribution center and the company held regular conference calls to determine which orders to fill.

"The conference calls, although effective, were too time-consuming," says Donna Burkit, Director of Customer Operations at Just Born. "At times, urgent decisions were delayed until the daily call, resulting in bottlenecks and heroic recoveries in the warehouse."

Today, those calls have almost been eliminated. Overcommitted orders are flagged and held pending an allocation decision. These decisions are aided by a report, developed by Just Born's logistics partner, showing overcommitted orders, RAD dates, available inventory against these orders, in-transit inventory, carrier ETA, and other data. Orders for critical customers may be fulfilled. Other orders with future RAD dates can be held. Still others can be flagged as hot orders to be cross-docked for immediate shipping when new inventory arrives.

"Today, decisions are made on the spot," says Burkit. "We have a big picture view of orders against real time inventory. The accountability for deciding which orders to fill transitioned back to Just Born and away from off-shift warehouse associates."

3 Cross-dock Freight

How can CPG companies move to more of a just-in-time inventory model, while keeping customers happy? One way is cross-docking, which breaks down received items and matches them with pending orders for immediate shipment.

Cross-docking reduces storage costs and the labor to receive, put away and pick inventory. It's a proven strategy, but many CPG companies don't do it because, frankly, it's not easy. Effective cross-docking requires:

- Visibility to factory production and inbound freight
- Advanced systems to marry orders with inbound freight
- Tight coordination with carriers

Smaller CPG companies often lack the systems and resources to effectively manage the process. Here's another area where an experienced third-party logistics partner can help.

A typical cross-dock program implemented with a 3PL might look something like this:

- CPG company ships inventory to 3PL, along with data on product type, volumes, and ETA
- Orders sent to 3PL, which marries orders with the in-transit inventory
- 3PL consolidates orders into proper shipping lanes and contacts carriers to set appointments
- 3PL provides shipment data to its DC, which schedules appropriate labor to prepare shipments when inventory arrives
- Palletized product arrives at the DC, where it is placed in a staging area before being moved to the appropriate dock location for loading onto a truck

A well-implemented cross-dock program can significantly reduce warehouse storage and labor costs while still meeting fill rate requirements of retail customers.

Playtex and Ascendia Drive Freight Savings From "Coopetition"

Playtex, with brands like Banana Boat® suncare products and Wet Ones® face wipes, and Ascendia, parent company of Baby Magic®, Mr. Bubble® and other popular brands, compete against much larger companies within the personal care market. Both recognized a need to drive down high freight costs. With the help of their logistics provider, they were able leverage the significant overlap in their customer base by consolidating outbound shipments. All orders are entered into the 3PL's load consolidation system to identify consolidation opportunities. Not all shipment are candidates for consolidation, but those that are generate a minimum overall savings of 25% from shifting from LTL to multi-stop truckload shipments.

4 Package Product in the Distribution Center

Retailers don't necessarily want to sell products in the same configuration as they leave the factory. For certain markets, they may require different quantities in a pack, or different product configurations altogether.

So, where does this customization happen? Many CPG companies still ship product from the DC to outside packaging firms only to have the product return to the same DC. This increases freight costs and causes the company to lose visibility to the product during the packaging process. You eliminate these problems by doing packaging and other product configuration at the DC.

CPG companies already use logistics firms for a wide range of sophisticated packaging requirements:

- A leading brand of feminine hygiene products ships bulk quantities to its 3PL, where a special packaging machine at the DC creates 20-packs for sale at supermarkets and mass retailers
- A candy maker ships full gaylords of boxed candies to the DC, where product is repackaged in lots of 25 for club stores
- A leading sports drink brand has its logistics partner create variety packs based on the exact specifications of different customers.

So what's the benefit of integrating distribution and packaging functions? A 10%-15% savings is possible based on reductions in freight costs, inventory and damage. In addition, product moves faster through the distribution cycle, enabling you to convert product to cash sooner.

5 Reduce Chargebacks

Chargebacks are fines levied against vendors by retailers to recoup costs the retailer incurs for shipments that don't meet established guidelines for delivery, labeling and other shipment specifications. High chargebacks typically are accompanied by poor scorecard performance.

Large CPG companies have internal departments that monitor chargebacks. But small and mid-sized companies don't have the resources to focus on chargeback reduction, so they often accept chargebacks as a cost of doing business. For these companies, an experienced third-party logistics partner can be their ticket to huge chargeback reductions.

More and more consumer product brands have become part of multi-billion dollar companies whose distribution infrastructure they can leverage to continually improve service to retail customers.

Logistics companies that ship for multiple CPG manufacturers know retailers' requirements and can police outbound shipments to assure compliance. 3PL input also can be valuable in accessing the data needed to assure the accuracy of the charge. For instance, delivery outside the agreed time window can easily be checked. In fact, complete order histories can be researched, including time of order receipt, shipment from the warehouse, arrival at a regional pool delivery station, and final delivery to the customer.

Virtual Logistics Capability Helps Smaller CPG Companies Compete and Win

More and more consumer product brands have become part of multi-billion dollar companies whose distribution infrastructure they can leverage to continually improve service to retail customers. This industry consolidation makes it more difficult for small and mid-sized CPG companies to compete. But partnering with the right logistics provider can give you access to the same capabilities – albeit virtually – enabling strategies that position your brand to win in the highly competitive CPG market.

About KANE

KANE helps consumer product companies get retail goods to market efficiently and effectively. We operate in every region of the U.S. and our logistics services include transportation, distribution, packaging, cross-docking, retail consolidation, and people logistics.

Looking for ideas to make your retail supply chain work better?

LET'S TALK

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