

Logistics Support for Trade Promotions: A View from the Trenches

How Poor Planning Undermines the Profitability of CPG Promotions



A KANE Viewpoint

Trade promotions, a marketing staple of consumer packaged goods (CPG) companies, are a big, messy management challenge. Poor coordination across functions during the planning stage adds costs across the entire organization. Perhaps the biggest impact is on the logistics group, which relies on timely receipt of accurate information in order to minimize warehousing, labor and freight costs – not to mention getting the products to retailers on time to satisfy expected sales spikes.

Because promotions involve many corporate functions, attacking inefficiencies can be difficult. That's why focusing on one aspect of execution, specifically the logistics functions of warehousing, packaging and delivery, may be the quickest path to savings. In fact, just providing the logistics team the answer to its prime question – *“What am I getting and when?”* – can easily save hundreds of thousands annually in unnecessary costs.

A View From the Trenches

To the logistics team, trade promotions can look like poorly planned fire drills. Critical information on product volumes and schedules often arrives late and incomplete. One reason is that this data does not come from one source but is the product of a chain of interactions between marketing, sales, inventory planning, manufacturing and customer service. Each function plays a distinct and vital role, but it's the timely coordination of these cross-functional efforts on which well-managed trade promotions depend.

Inefficiency in logistics occurs from a failure of planners to share data in a timely manner. Without such data, it's impossible to plan for just the right inventory, space, and labor to meet the demand.

If similar communication problems occurred in airport operations – let's say air traffic control failed to communicate arrival time changes on



inbound flights – it’s easy to predict the resulting chaos. Gate personnel would not be there to allow passengers to deplane, baggage would sit for hours in the plane’s belly, and refueling would not occur, delaying subsequent flights. Dozens of on-the-ground functions are triggered by a single event – the arrival of an airplane. Planning for trade promotions is no different in that up-front decisions and events impact what happens when product starts flowing.

What’s the impact of a poorly planned trade promotion?

According to AMR Research, in the U.S. CPG industry trade promotions cost \$85 billion to \$105 billion a year, yet they generate incremental revenue of just \$8 billion to \$16 billion. And on average, only 16 percent of trade promotions are profitable. These lost profits are leaking from many different

areas, from deal terms to increased advertising and manufacturing costs. But the logistics costs alone are significant and fixable.

Where is profitability lost through inefficient logistics support?

- Lost sales linked to product not arriving in time to support the promotion
- Warehousing costs as items sit waiting for pick-up and delivery
- Inflated labor costs as overtime is required to handle increased volumes
- Sub-optimized freight runs

The good news for CPG companies is that your logistics team or third-party provider can help you reclaim these lost profits. But to do so they need timely, accurate information on program details.

Common Trade Promotion Planning Mistakes

- No one is in charge and accountable; little cross-functional communication during the planning stage
- Logistics team and freight carriers not involved at early stages of planning process
- Focus is on getting product built; timely delivery is taken for granted
- Data delivered to logistics team late and incomplete
- Incorrect packaging decisions result in poor stackability, excess space requirements and lost cube in trailers
- Volume spikes addressed with overtime
- Proper data feeds not in place between CPG company and its logistics partners
- Company lacks visibility to all promotion-related costs and cannot accurately assess profitability

A little data goes a long way

For promotions, the savings potential of efficient logistics support is buried in the details. Here are the areas where CPG companies are leaving money on the table:

Warehouse layout and processes

Your logistics team can translate product data into space and labor savings. Industrial engineers examine product volume and dimensions, along with any special handling requirements and equipment needs. From this data, they develop a layout for how and where product will be stored and where value-added services, such as kitting or co-packing, will be performed. They then map out processes for unloading and handling the product with the fewest people in the least amount of space.

Size and weight data on the products will also allow money-saving decisions on how trucks are loaded. Through load diagramming, engineers determine if and how products can be stacked in the trailer and how to best maximize trailer cube space and minimize in-transit damage. A good load plan can take trucks off the road and reduce promotion-related freight costs.

Inventory

Coordination is the name of the game when it comes to minimizing inventory-related costs. The longer product sits in the distribution center, the greater your costs. If logistics can receive accurate information on the volume and delivery time of inbound shipments, then warehouse labor and product pick-up can be scheduled in advance. The challenge of one major CPG company to its logistics partners is “don’t let product touch the floor.” This company wants product, upon receipt, sent immediately to the co-pack area where workers

Checklist for Successful Logistics Support for Trade Promotion

To cook a good meal it helps to have the right ingredients. The same is true with logistics support for trade promotions. Here are tools and capabilities that can help plan and manage a successful promotion.

- **Flexible workforce** to add capacity without costly overtime
- **Onsite industrial engineers** to accurately project capacity and output
- **Tight integration with freight carriers** to synchronize delivery with other activities and reduce duplicate handling
- **Packaging engineers** to provide feedback to manufacturer on the impact of promo-pack packaging on product damage, warehouse efficiency, and trailer cube utilization
- **Quality process** to ensure the quality of the outbound product and the integrity of the brand
- **Packaging equipment expertise** to develop a process that minimizes labor costs through automation
- **Labor management systems** to maximize productivity

create promotional kits and send them directly to the outbound truck. This approach eliminates extra touches, which reduces in-process inventory, labor, space, and damage.

Labor

Warehouse teams operating without good data have labor costs that are 20% – 30% too high. Since labor is your biggest incremental cost for promotions, this inefficiency can cost you hundreds of thousands annually. By understanding the number of workers required to process forecasted volumes, you can avoid overtime and the cost of running an extra shift. Inflated labor costs are also linked to transportation, since the warehouse process starts when inbound trucks hit. Missed delivery windows result in idle workers.

Transportation

Carriers are often an afterthought during trade promotion planning. They must be brought into the process early. Carriers need to know volume estimates to determine the number of required trucks and when product will be available to ship. From there, pick-up and delivery must be synchronized between

factory, warehouse, and retail customer. Poor coordination and scheduling add costs. For instance, if a truck arrives too early and must sit in the yard the product will be handled twice versus going direct to the production line. If it's a live load, detention charges may kick in after a couple of hours until the truck is unloaded and released.

One strategy to better react to delivery schedule problems is to use a full-service 3PL with its own truck fleet. It's ideal to work with a company that can combine the warehousing, co-packing, and transportation functions. This simplifies the communication challenge. Also, it enables rapid corrective action when problems occur.

To improve on-time performance, partner with carriers that have experience in direct-to-store distribution (DSD). Not all carriers and drivers have this specialized discipline.

These added logistics costs often are invisible to marketing and sales teams, who focus on top-line growth. The first step in attacking logistics inefficiency in promotion execution is to educate these groups on the financial impact of poor planning and coordination.

For promotions, the savings potential of efficient logistics support is buried in the details.

Real-time Data Sharing Key to Coordinated Promotion Execution

Successful trade promotions require collaboration, and collaboration does not happen unless data is shared in a timely manner between the marketing team, the factory, carriers and the warehouse. Information systems must enable real-time feeds so stakeholders know where product is at all times. Is incoming product needed to fulfill an immediate order? Has the product gone through the co-pack process and is it ready to be loaded onto a waiting trailer? Without answers, you may end up storing the product unnecessarily and touching it multiple times. Result: more storage, more inventory, and more labor. From the outset, determine what data needs to be shared with whom and make sure the proper communication maps are in place.

What To Do If Something Goes Wrong

Even the best plans can be foiled by last-minute changes or disruptions. For instance, factory delays may mean carriers will be unable to pick up the product on the new date. In these cases,

contingency measures should be in place to ensure product can still hit the store shelf by the requested arrival date. On the transportation side, an asset-based carrier may be better able to direct trucks to the project in response to last-minute glitches. For warehousing and co-packing requirements, it can help to work with a third-party provider that operates a large, multi-client facility or operates in a multi-facility campus environment. Such providers can free up space and shift resources from other clients to meet deadlines while avoiding overtime expenses.

Simple Formula For Cost Savings: Communicate

The logistics function has been a corporate hero of sorts over the last two decades as we automate and optimize the flow of goods to drive greater operational efficiency. However, poorly planned CPG promotions buck this general trend. They create uncertainty, which forces the logistics team to develop more costly “just in case” plans for storage, labor and freight to handle promotion-related volume spikes. Much of this uncertainty can

Successful trade promotions require collaboration.

be erased simply by telling the logistics team “what they’re getting and when.”

Much of the data on trade promotions – products, volumes, schedules – is discussed early in the planning process within marketing, sales and other corporate functions. Sharing this data with the logistics team as soon as possible can yield substantial savings that drop right to the bottom line. To prompt improved data sharing, educate functional groups outside of logistics on how the logistics team can translate program details into cost savings. Even for managers charged with growing the top line, those bottom-line logistics savings are hard to ignore.

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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