Strategies to Reduce Logistics Costs in the CPG Supply Chain

5 strategies for breakthrough cost savings

A KANE Viewpoint

Consumer packaged goods (CPG) companies face a constant battle for market share and retail shelf space. Price points are a key weapon in this battle and, increasingly, CPG companies rely on lean logistics operations to provide a cost advantage.

How is your CPG company responding to this challenge? With incremental improvements to existing distribution processes? Or are you exploring logistics strategies that alter current processes and the way you work with retail customers?

A mix of both is optimal, with new strategies offering the best potential for breakthrough gains and cost savings. Following are five strategies for CPG manufacturers to consider. Some new, some tried and true.

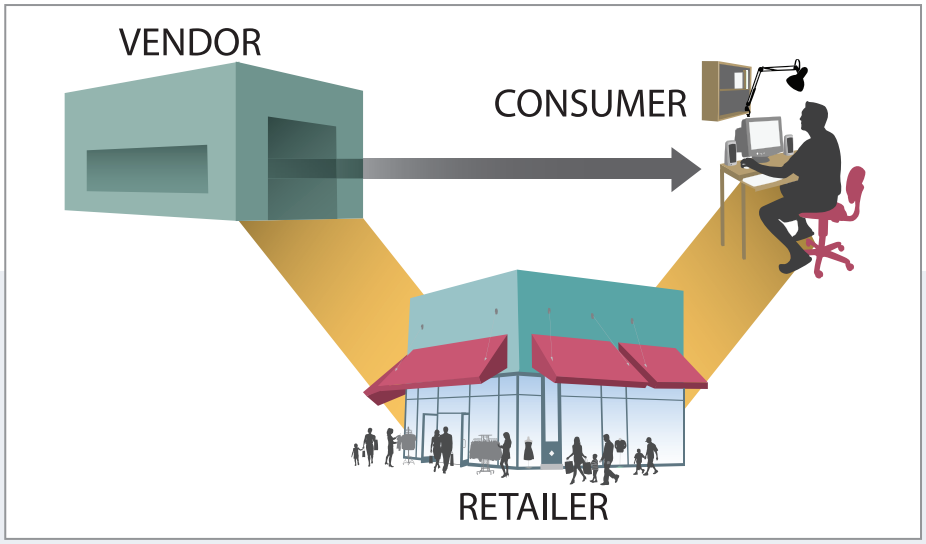
1 Drop ship eCommerce orders on behalf of retailers.

U.S. eCommerce sales represent a relatively small slice – about 6% – of total retail sales. But the segment will grow 10% per year to $279 billion by 2015 (Forrester Research). Today, retailers fulfill these orders from their current distribution network, built for replenishing stores with pallets and truckloads of product. But this VENDOR-to-RETAILER-to-CONSUMER supply chain is inefficient, with extra touches and freight runs, higher inventory, and slower cash cycle times.

Such a cost-laden infrastructure makes it difficult for retailers to turn a profit on eCommerce sales of low-margin CPG products. As an alternative, consider fulfilling your retail customers' eCommerce orders directly from your distribution centers. This would increase your customer's efficiency and just might help preserve your company's revenue in this growing channel of distribution.

Two barriers to a drop ship strategy – branding and systems integration – are very solvable. To maintain retailer branding, your DC can provide necessary labeling and packaging requirements to mimic the retailer's current branding and shipping methods. Sometimes it's as simple as placing items in your customer's outer box. Additional

A portion of the products you send to retail customers will ship to online shoppers. By fulfilling these B2C orders from your DC, you avoid this extra step and streamline the retail supply chain.



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systems integration work would be required, but EDI connections already exist for DC-to-DC orders. Consumer orders could be integrated using the same protocols.

The benefits of drop shipping eCommerce orders include reduced touches and damage, fewer freight runs and reduced inventory based on shorter order cycle times. Additionally, by leveraging your DC's existing volume, you could zone skip parcel packages to greatly reduce parcel costs. But your biggest benefit could be in solving one of your customer's most vexing problems and elevating your status as a preferred vendor.

2 Ship factory direct.

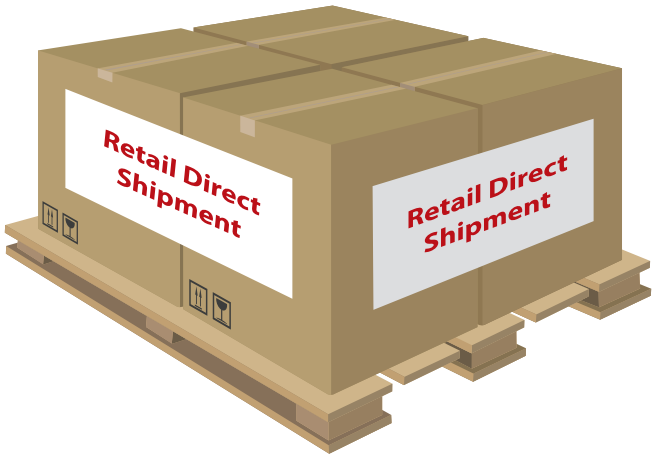
CPG companies save when they bypass their own DCs. So, why not incent retail customers to order specific SKUs to ship direct from the factory? It's a win-win. Retailers get the product faster at a lower price, while you avoid significant freight, storage and labor costs.

What's the savings potential? A plant that ships 400 orders a day could save around $750,000 from this one location, assuming 25% of these orders could ship direct.

In the days when CPG manufacturers were doing long manufacturing runs of a few SKUs per day, there wasn't room at the plant to store product awaiting shipment. Today, manufacturers are doing shorter runs of varied SKUs, so quantities are small enough to ship direct. Initially, direct plant shipment makes the most sense for fast-moving "A" items.

Barriers to implementing the strategy are both physical and informational. Factories need to have the space and physical characteristics to stage large volumes of product. On the systems side, transportation management systems and the carriers themselves need to be flexible. For retail orders, you may not know until a day or two before whether product will be fulfilled from the factory or the warehouse. Systems need to be smart enough to match demand with available supply at the factory, and carriers need to have equipment available on shorter notice.

CPG manufacturers can save by working with retailers to arrange direct shipments to retail DCs from the factory.



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Logistics savings from factory direct shipments accrue primarily to CPG manufacturers, who avoid shipping, receiving, storing and processing costs associated with their own DC. So, retailers may need to be incented to change how they order. For instance, is there a price break for orders shipped direct from the plant? Such deals require collaboration with your marketing team and, frankly, an organization with a holistic view of the supply chain – one that understands, as in this case, that reducing the price of the product can actually lower costs and increase profit.

3 Provide logistics input on packaging design.

Today, packaging decisions at CPG companies are made upstream by sales and marketing departments, with no real involvement by logistics and packaging professionals. As a result, a CPG company's total costs can become inflated due to inefficiencies during the final phase of assembly and delivery. For instance:

- A flashy point-of-purchase display can take a long time to assemble at the warehouse. One such display for a health and beauty product manufacturer took close to 25 hours to build.
- A slightly oversized carton can limit the amount of product that can fit on a pallet, limiting cube utilization in the warehouse and trailer.

It's like an architect who may specify a certain brand of window for its aesthetic appeal, not its insulating capabilities. Eventually, excessive heating and cooling costs will cause building owners to revisit the initial design decision. Better to get the engineers and builders involved early.

There is no reason packaging can't be both eye-catching and practical. But to avoid downstream inefficiency, logistics must demand a seat at the table when packaging and point-of-purchase display design is being discussed. Early involvement of logistics and packaging design engineers can pay big dividends. For example, one CPG company sat down with package design specialists at their 3PL recently to examine three point-of-purchase

Logistics is typically not involved in early-stage meetings on packaging design. This often results in inflated downstream costs.

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displays used in supermarkets and drug stores across the country. Changes to corrugate and slight design changes saved 17%–20% on finished product costs – a $250,000 savings on these displays alone.

4 Cross dock a portion of freight.

Cross docking is kind of like an HOV lane for fast-moving freight for which there is steady and predictable demand. Product hits the receiving dock and is quickly loaded onto another truck for final customer delivery, avoiding the time and costs involved in storing and handling product at the warehouse.

Cross docking is regarded primarily as a retailer strategy since retailers will permit all available inbound freight to be shipped to a retail outlet as it comes into the DC, whereas CPG manufacturers typically want specific merchandise at a specific time to fulfill inventory requirements. But many of the benefits of cross docking are available to CPG manufacturers.

By avoiding a month of storage costs and the labor to pick, pack and ship products, you can save about $9 per pallet. Let's say you cross dock 10% of your freight. If you ship 50 trucks a day, you could save as much as $350,000 per year.

Why don't CPG companies do more cross docking? A few reasons:

- **Inadequate systems and lack of visibility to inbound.** Shippers need a system and a process to marry up the inbounds and outbounds in a way that does not delay needed freight.
- **Lack of reliable data**. Cross docking requires clean, reliable ASNs for the inbounds to know when the freight is arriving and what is on the truck. This is less about systems and more about shippers providing accurate details on shipment contents and carriers providing very precise delivery times. In the absence of one or both, cross docking is difficult.

Cross docking avoids storage and handling costs for a portion of your inventory.

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- **Most CPG companies look at cross docking opportunistically,** hoping that a clerk will recognize a chance to marry inbound freight with a pending order. Often no formal process exists.
- **3PLs that operate the warehouse may not push a cross dock strategy** since it can reduce their storage and handling charges. That said, proactive 3PLs can be the "on switch" for a cross dock strategy since they often have the software and control tower technology required.

More CPG manufacturers are aiming for "one touch" distribution to reduce costs. With the right processes and systems in place, cross docking can be a means to that end for at least a portion of your freight.

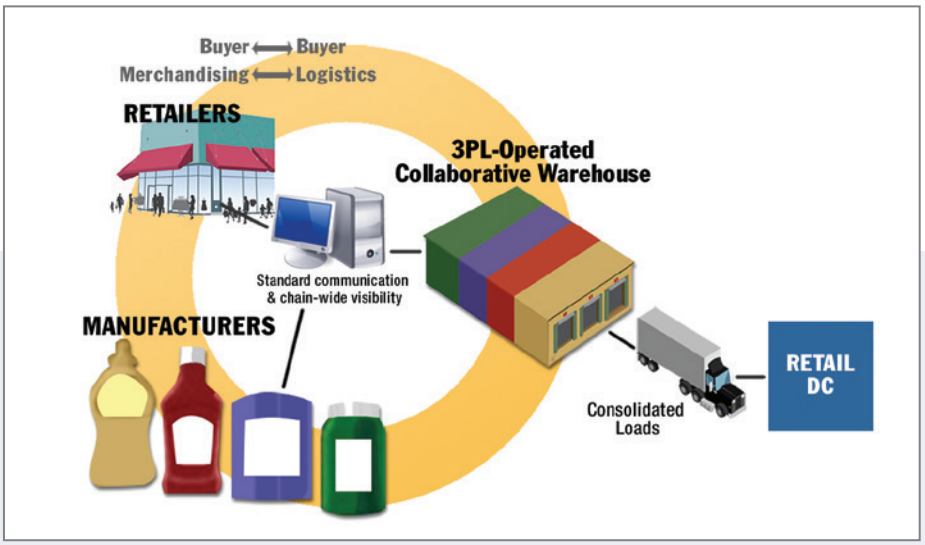
5 Collaborate with retailers and 3PL partners to consolidate freight.

Load consolidation is a tried and true strategy to combine LTL freight from different companies moving to the same place in order to leverage lower-cost truckload rates. But this activity is ad hoc and occurs only if a 3PL or carrier recognizes consolidation opportunities. For small and mid-market CPG manufacturers moving to regional grocery chains, far greater cost saving opportunities are available from collaborating with retailers and 3PLs on a different process for replenishment – one based on a retailer combining its orders to multiple smaller vendors into a single purchase order.

Right now, there is little coordination among retail buyers at grocery chains. They order mustard, ketchup and pickles from a host of different vendors, who pay LTL rates to ship to retailers and whose products ride side by side on highways traveling to the exact same retail DCs. But what if those products were located at the same 3PL-operated facility? And what if 3PLs enabled the retailer to combine orders for multiple vendors in a single purchase order?

Product manufacturers would benefit by sharing storage costs and reducing outbound freight costs 20%-35%. Retailers would benefit from greater

Collaborative distribution creates an economical shared infrastructure for CPG product distribution. But making it work requires a change to current processes.



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receiving efficiency, reduced time for vendor management and payment administration, and reduced inventory.

The accompanying diagram depicts a shared distribution infrastructure for grocery product distribution. Just as individuals don't need their own train to commute to work, you don't need your own individual supply line moving to each of your retail customers.

Granted, this is a big idea requiring some major process changes. But at the same time it's an incredibly simple idea: take tens of thousands of product "streams" emptying into the same ocean, and combine them into one highly efficient river of product that takes trucks off the road, reduces pollution, and cuts grocery distribution costs as much as 35%.

Dramatic CPG Supply Chain Cost Reductions Require Bold Action

Walmart, Dell and others have proven that efficient supply chains can yield a dominant competitive advantage. But not without exploring new, sometimes bold, initiatives.

The biggest savings opportunities in the CPG supply chain likely require strategies that are outside your comfort zone or require significant time to develop – time you may not have. Rather than risk failure on untried approaches, it's tempting to delay action until someone else has figured it out. But progress typically results from bold action and a willingness to fail. Perhaps we need to examine the time we invest in doing the same things better and reinvest at least some of that time in imperfect execution of new ideas that genuinely set us apart.

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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