

A New Spin on Just in Time  
by Dan McCue  
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The embrace of private label brands by cost-conscious consumers has created a more complex and volatile just-in-time environment, according to those who are now dealing with the situation each and every day.

Once considered “knock offs” of high end or otherwise branded products, the appeal of retailer-specific brands to the Walmarts, Targets, Costcos and Whole Foods of the world is easy to understand. Because they arrive on store shelves unencumbered by advertising and marketing expenses, they provide higher profit margins—in some cases estimated to be 10 percent higher or more than similar branded products—to those that sell them.

But low cost alone, obviously, isn’t enough to explain the changes that have taken hold on the shelves of retailers, and concurrently, put substantial pressure and manufacturers and other supply chain partners.

The other factor driving the popularity of private label brands are consumers themselves, who have embraced a category of goods whose quality has increased substantially over the years, and who remain highly cost-conscious after being bitten by the recession and the housing crisis.

“Perhaps the best way to look at how all this is impacting supply chain practices it to look at the end of the chain and work backwards,” says Patrick Kelleher, senior vice president of sales and business development, Americas for Westerville, Ohio-based Exel, the contract logistics and supply chain management firm.

“As relates to consumer behavior, what we’re seeing is more price comparison and a willingness to trade away from a brand name product or to substitute one product for another,” Kelleher says. “Certainly, that’s increased competition for discretionary spend versus what we’ve seen in the past, and it’s also led to even more concern over having the product that customers are looking for on the shelves at the right time to capture what little discretionary spending they’re doing.”

By now, we’re all getting used to the result—shelves featuring a wide selection of very similar products—say, band-aid brands—but short supplies of any one type of product or product line, branded product or private label brand.

“In short, the result has been an increased number of SKUs,” Kelleher says. “The retailer needs to continue to offer branded products, which may still retain strong brand loyalty in many cases, and at the same time, they’re also devoting shelf space to similar, private label items to be in a position to capture the discretionary spend.”

Kelleher hastens to add that unlike in other economic recoveries, the behavior of 2010 seems to have more “stickiness” than post-recession years past.

“Typically, during other recoveries, we’ve seen movement from one branded product to another, but now we’re seeing consumers move from premium brands to what might be

appropriately called, more mainstream products, and staying there,” he said.

So what does all this mean in terms of supply chain and just-in-time?

According to Kelleher, the basic premise underlying supply chain activity remains the same—a retailer’s success in the marketplace hinges largely on its ability to optimize inventory flow, and they continue to reach out to best-in-class logistics providers that have the tools they need to get product to the right place at the right time.

And, as has always been the case, supply chain decisions are an extension of a retailer’s overall sales strategy.

But, there’s a marked difference as well.

“A big dynamic that is being created in the retailer’s supply chain is the dramatic increase in the number of SKUs you need to deal with as greater duplication occurs across product lines,” Kelleher points out. “Because branded labels and equivalent brands are sharing shelf space, we’re seeing fewer days’ supply per SKU.

“That has a definite upstream impact in the supply chain in terms of how frequently products are replenished and at what quantity,” he adds.

From a supply chain perspective, retailers are asking 3PLs and other supply chain partners to continually come up with more cost effective and more efficient strategies to replenish their stores with either less-than-pallet or less-than-case quantities.

“Now, that can drive a lot of things, from having more picking activity within the warehouse to driving more cross-docking activity, to deciding to cross-dock case quantities, and it certainly has put more focus and attention on the forecast-demand-replenishment activity that retailers are either performing for themselves or having a 3PL perform to more carefully manage product level at the shelf level.”

An answer for 'Where's my stuff?'

Among those providing supply chain solutions at this new level of detail is Schneider Logistics, which has launched a new Inland Logistics Management service designed and developed in collaboration with an international retailer.

The service is built around a software platform that “synchronizes international and domestic supply chains” says Todd Ericksrud, Schneider’s vice president of Inland Logistics Management.

In practice, the platform provides users with a single, readily accessible snapshot of activity from multiple supply chain entities, including steamship lines, terminals, customs brokers, draymen and distribution centers.

With this information, Schneider couples international milestone visibility with port dray management, and in turn synchronizes international and domestic supply chain events for shippers.

Shippers, in turn, have actionable data, visibility, and control to dramatically lower their overall transportation cost, Ericksrud explains.

In essence, the company is saying that as the just-in-time horizon line has gotten shorter, there's an even greater need to be able to tap into real time more quickly and across the entire supply chain partner network whenever and wherever possible.

"Basically, this all came together as we worked with a retailer who was really struggling with the global element of their supply chain, especially in the area of direct imports," Ericksrud says. "When it came to a specific shipment, they had really good information from the steamship lines and customs brokers and terminals, but when they put it on the truck for the local dray, it kind of went into this black hole, and that really caused some problems.

"The other problem they had was scalability," he continues. "While they might have good visibility from one steamship line at a time, or one customs broker at a time, because of their size, at any given time they were relying on multiple steamship lines and brokers and terminals and the visibility of their supply chain declined at a rate commensurate with the number of supply chain partners they had."

What the client wanted was what all retail clients who rely on just-in-time deliveries want—a way to simplify their tracking process while more confidently getting answers to the questions: "Where's my stuff?" and "When is it going to be delivered?"

Schneider's solution was to craft a platform that provides visibility across 30 separate milestones in the supply chain. Just as importantly in the just-in-time environment, the software allows users to get down to the item level of detail.

In other words, a retailer can home in on how many black totes or blue t-shirts they have coming in, and see exactly where it's located in the supply chain.

"So now you can start managing your inventory, even if it's not sitting in your facility or stores," Ericksrud says.

The milestones allow the user not only to see where his or her products are, but also compare real time performance against the plan when the shipment was ordered. To ensure the accuracy of the information it is supplying to clients, Schneider maintains EDI connectivity with all of its clients' supply chain partners. The information is then formatted for ease of use.

"What we found is that if you look at the supply chain as a whole, as just one big milestone—'When did the shipment leave the factory and when did it arrive in my store?'—you are really missing out on the opportunity to build more accountability into each specific link in the supply chain," Ericksrud says.

"Of course, the just-in-time environment is about delivery on time, but there is also the opportunity to reduce dwell time, reduce inventory, and increase the confidence you have in your supply chain by paying attention to these things in this way," he continues. "For instance, we have five milestones that we track at the point when the steamship pulls up to the dock and the cargo is delivered to the port."

"If I can tell you with a degree of confidence what has or hasn't happened in that situation, whether or not your cargo is actually off the ship or has been cleared by customs, you can

really control and manage your supply chain, and plan for your deliveries with a similar level of confidence," he says.

In the absence of that level of confidence in their just-in-time operation, many people are doing some really bad things, Ericksrud says.

"Unfortunately, because they're uncertain of their supply chain and the visibility of their shipments, people try to compensate," he explains. "They might say, 'Well, I don't have the data and control I'd like, so if a shipment is supposed to be here in 28 days, I'll add a week and make it 35 days.'

"Or they might say, 'I don't have confidence in my supply chain, so I better order more inventory—order 1,200 rather than 1,000, just to make sure I get the 1,000 I really want,'" he says. "All of those things are bad things to have going on in your supply chain. To effectively manage your just-in-time delivery process, you need to take the water out of the river, so you can start to see where the rocks are, where the challenges are, and then you can begin to address them."

In the new environment, the need to focus on supply chain milestones, particularly on the domestic side, where most of the dwell time and costs typically manifest themselves, is part and parcel of the hypersensitivity retailers feel to have just enough products available.

"It's getting to be a more and more critical concern over time," Ericksrud remarks. "In the battle to have just the right product in front of the consumer at the right time, no one needs to add dwell time to their supply chain, or add inventory they don't need or add costs."

More attention paid to supply chain milestones also pays dividends to people managing and handling the movement of their goods.

"I remember in the case of one client, attention to milestones and their having a transparent milestone really helped deal with a spike in shipments that they had," he says. "It was a typical case of a retailer having a sale and having to 'meet the flier'; in other words, making sure they had enough of the sale goods on hand when the flier reached their customers with the Sunday papers.

"We can see that volumes for this particular customer were going to triple over a three to four day period and we were able to plan and reallocate our own assets in response," Ericksrud says.

## Forecasting and demand planning

Kelleher believes the key to making a just-in-time strategy work is taking the time to sit down and really get an understanding of the retailer's mission and how they are trying to position themselves in the marketplace and in customers' minds.

"Then you align the supply chain to meet that mission, a process that can manifest itself in a lot of data analysis, and secondarily, product segmentation," he says.

"So in practice, we would look at treating the sale of washers and dryers and refrigerators

and how those get to consumers very differently from diapers and baked beans and ketchup, and really come up with what I'll call 'channel supply chain strategies,'" Kelleher continues.

"Again, this is definitely requiring us to develop a capability around forecasting and demand planning, whether we're performing it on a day-to-day basis for a retailer or a manufacturer, and at the same time, the marketplace requires that we constantly get better in forecasting demand for individual products and understanding how these forecasts impact the supply chain dynamic," he says.

As in the case at Schneider, that requires Kelleher and his colleagues at Exel to mine a tremendous amount of data captured in the supply chain process, and use it to identify economies of scale as a result of warehouse workers picking in smaller quantities and shipping more frequently.

"A good example of that is the band-aid example," Kelleher says. "If we are replenishing a store shelf and there are 100 individual buying units of branded band-aids on the store shelf, we can look at how frequently that the shelf is replenished, and consider whether it would be more efficient to crate bundles of ten or bundles of five are picked in the warehouse, rather than dealing with individual units or cases of 50; our job in this environment is to come up with different break points to make sure the warehouse operation is operating at the most efficient level, which in turn should mean the store logistics are at their most efficient as well."

In fact, one of the services Kelleher is most excited about (and also one of its newest) is forecasting and demand planning.

"We actually now have a group within Exel that provides those services both for retailers and manufacturers, and we're also providing associated services to retailers and manufacturers who are still handling forecasting and demand planning for themselves," Kelleher says. "In those cases, what we're doing is actually leveraging their internal capabilities as part of our overall supply chain solution for them." wt

Contributing writer Dan McCue lives in Charleston, SC, where he writes frequently on global trade, foreign direct investment, and port-related issues.