

Consumer Goods TECHNOLOGY



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BEYOND LEAN. THE MARKET RESPONSIVE COMPANY

CONSUMER GOODS COMPANIES routinely deal with cost, price and margin pressures in the hyper competitive world of consumer markets. Many use lean and other continuous improvement techniques to be as efficient as possible. But this is no longer enough. The most successful product companies are also the most responsive to market demands, exploiting the sudden shifts to maximize profit and minimize supply chain disruption.

STRATEGIC SHIFT

In the late 1980s and through the 1990s the primary focus of most CG companies was on operational excellence. There were many areas of the supply chain, back office, and corporate functions that were run at less than optimal levels. Many CG companies reaped significant return on process improvement investments, with the "Lean Manufacturing" and "Six Sigma" methodologies gaining deep acceptance within many companies. Much of the need to become operationally excellent was driven by globalization and the dizzying array of choice that global sourcing provided. But by the early 2000s a low cost provider strategy to combat cheaper imports and global supply networks was not enough.

With consumer expectations firmly set on high quality consumer products at low prices, a second force erupted to make a CG company's strategy even more challenging. Consumer demand for healthy, fresh, and convenient product took off and opened the door to many nimble, innovative smaller companies.

Those companies that responded quickly to this new force grabbed share in the high margin categories of green, organic and healthy lifestyle products, often beating the establish branded product companies in category leadership. Suddenly lean was not enough of a strategy to win. The shift to growing revenue and margin through new products, tighter partnerships and more sophisticated segmentation now dominates CG companies' strategies.

Adding further pressure is the impact of world events:

- Government regulations from SOX to bio-terrorism legislation, making visibility of supply chains, channel partner activity and internal controls paramount
- Dramatic rise in energy costs, forcing rethinking of transportation arrangements and inventory deployment policies
- Potential pandemics from animal transmitted diseases and terrorism, raising concerns about the safety of global supply networks

These forces are causing CG companies to be much more responsive, and to invest in doing business faster and smarter than ever.

THE MARKET RESPONSIVE COMPANY

Third party research shows that flexible, fast response companies outperform their lean competitors in profitability and stock price. Market Responsive Companies know how to respond to stimuli and compete in a short shelf life / short business cycle world. They routinely "shine light on the dark corners" of

their channel partner activities and all the areas of their own business.

Some of the key characteristics of top performing, Market Responsive Companies include:

- Decision-making is a management discipline, not ad hoc, and tightly integrated across functions
- True cross-functional collaboration, planning and decision-making processes are in place from the top down
- Sales and marketing processes are brought to a higher level of discipline and accountability through closed-loop management techniques
- Technology is at the heart of internal and external integration
- Processes (and associated metrics) drive people to new ways of working

These characteristics allow Market Responsive Companies to move toward a real-time business engine capitalizing on collaborative processes, information sharing and decision-making with key channel partners.

REALISTIC FIRST STEPS

After working with many CG companies, and seeing what works and what doesn't, here are four "first steps" that any CG company can tackle on the road to becoming a Market Responsive Company:

- **Assess your level of internal integration:** beyond a solid systems infrastructure to integrate transactional business processes, are the decision-making and collaboration processes necessary to quickly assess and

respond to market changes. A common place to start is to ensure that sales and operational planning (S&OP) processes are robust, strategic and inclusive of sales, marketing, operations, and finance executives.

- **Critically examine the effectiveness of pricing and trade spending:** this is your #1 tool for shaping demand and creating market responsive programs with channel partners. Often pricing and trade spend processes and organizations lack accountability and performance metrics typical in most other parts of the business. Applying closed-loop management processes to strengthen controls, accountability, and compliance help achieve risk objectives, as well as change behavior toward building brand ROI. Integration with S&OP processes improves your market responsive capability.
- **Establish a budget for developing manufacturer / distributor / retailer collaboration efforts:** Extending into, and collaborating better with, channel partners is critical to a market responsive company. Begin by establishing real-time demand and sales data integration with specific channel partners. Commit to sharing data to better target product and customer combinations for higher volumes and margins. Work toward data synchronization that delivers actionable information in an acceptable timeframe. The closer you move to a "real time business" environment, the higher your market responsive score.
- **Reassess underlying asset policies (inventory, equipment and facilities):** flexibility and market responsiveness parameters are often left out of decisions about investments and asset policies. These policies are often set within the context of a fairly narrow definition of the market landscape, and are not revisited or renewed on any regular basis. Start with rethinking the balance between inventory investment, and warehousing and transportation costs.

COMPETITIVE PRESSURE	BUSINESS IMPACT	INVESTMENT REQUIREMENT
Fresher, Healthier Convenient Foods	<ul style="list-style-type: none"> •Speed-to-Shelf Time •Shorter Shelf Life •Spoilage •Food Safety 	<ul style="list-style-type: none"> •Track-and-Trace •RFID •Data Sync (ISync) •Cash-to-Pay Cycle Time •Inventory "Bursts"
Food Safety	<ul style="list-style-type: none"> •Ability To Find and Recall •Discrete SKUs at all pack levels •Age of Syndicated Data 	<ul style="list-style-type: none"> •Internal - Electronic Lot Trace •External - Data Sync and Access to Trading Partner Inventory
Consumer Spending Patterns / Trends	<ul style="list-style-type: none"> •Short Life (Atkins) •Expanding Sales •Locations •Prepared versus Processed 	<ul style="list-style-type: none"> •New Product Development Cycle •Real-Time Sales Data •Information Sharing with Channel Partners •More Responsive Supply Chain
Government Regulations	<ul style="list-style-type: none"> •Labeling •SOX •Food Recalls •Bio-Terrorism Act 	All of the above
Industry Structural Changes	<ul style="list-style-type: none"> •Transportation Costs •Energy Costs •Global Sourcing •Increased Customer Interaction 	All of the above

Many CG companies find that the changing costs of transportation dictates a rebalancing of the supply chain in terms of inventory, locations and movement parameters to effectively serve proliferating customer point-of-purchase locations.

every CG company must master. But lean is no longer enough. The Market Responsive Company is integrated internally and externally to operate as close to the market as possible. This level of integration requires systems, processes and organizations prepared to compete through superior decision-making and collaboration, and the use of technology. ■

CONCLUSION

Lean disciplines are a core competency that



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