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Product Launches and the Supply Chain

Strategies & Considerations for the Mid-Market Supply Chain Manager Introducing New Products to Market.

Introduction

There has been a rapid shift in the way that executive teams view the supply chain value proposition. For the past three decades, organizations focused on the tactical advantage of transactional processes that cut the cost of getting products into customers' hands. Today's innovators view their supply chains as a means of transforming those day-to-day transactions into extensions of their overall corporate strategy, especially when it comes to supporting new product launches.

This shift in perspective is necessary in a rapidly changing operational environment. According to analysts at Gartner, the pace of business and technology evolution is blurring the boundaries between physical and online business, generating new sources of value for the enterprise[1]. Thus, Gartner predicts that by 2018, 50 percent of Chief Supply Chain Officers in global companies will design and manage supply chains to specifically support and integrate their digital business. Leading middle market companies have made strategic investments in their supply chain capabilities and have established efficient and effective operations to overcome cross-functional silos. These companies have redefined their customers' expectations of service and their ability to bring innovation to the market, turning their excellence in supply chain execution into a powerful competitive advantage.

"C-suites have been thinking of operations more broadly than the traditional view of sourcing, manufacturing, and supply chain, or in the services sectors: front, middle and back office," says Brad Householder, Principal and Supply Chain Leader, PwC. "Across industries... [executives] now manage these functions as part of operations too: customer insights, marketing, sales, service and support, and new product and service development[2]."

Critically, the very best companies continue to evolve and reinvent their supply chains, even if they have already achieved a leading position in their industry. By doing so, they are able to manage risks while remaining nimble enough to respond to changes in the economic, technological, and competitive environment to exploit new opportunities more effectively than their competitors.

One example of how important strategic supply chain management can be for C-suite executives is illustrated by Apple's decision to tap supply chain expert Tim Cook to succeed Steve Jobs as CEO. Since the late 1990s, Cook leveraged strong processes and supplier relationships to create an agile and flexible supply chain -- transforming the company's operations and supporting product launches across a complex and diverse product base.

In the increasingly competitive 21st century, properly managing the launch of a new product is one of the most critical skills mid-market organizations must master. Indeed, successful new product introduction (NPI) can be a very lucrative and value-creating initiative, but oftentimes, a lack of planning and communication can doom even the most innovative product. Thus, the supply chain manager has the power to determine customer satisfaction by anticipating demand and executing a strategy to fulfill that demand. In this executive report, we will discuss how supply chain management has evolved in recent years, describe the key success factors for developing an effective supply chain management strategy and offer insights into the strategic, operational and financial issues that should be considered by executives in middle market organizations who are responsible for executing successful new product launches.

1 - http://www.gartner.com/smarterwithgartner/achieving-supply-chain-excellence-in-the-digital-age/
2 - http://www.pwc.com/us/en/press-releases/2015/pwc-global-operations-press-release.html

State of the Market

Although supply chain management is not a new discipline, the practice has changed radically in recent years. Supply chains designed in the 1990s were often tailored for a high volume of product and a predictable level of demand.

In recent years, however, the increasing dominance of globalization and international manufacturing has collided with the need for high precision in delivering the right product to the right place at exactly the right time. This has complicated organizations' ability to optimize their supply chains to deliver products to destination efficiently and profitably.

Further, the explosion of global e-commerce has had two notable repercussions: it has increased the number of channels through which the end customer may order product, and has consequently increased the number of channels through which manufacturers must deliver that product. Manufacturers now have direct-to-consumer (D2C) online sites that supplement their retail operations, adding an added layer of complexity for supply chain managers.

Advanced technologies have been a double-edged sword for many organizations seeking to optimize their supply chain. Pure-play e-commerce technologies have lowered the barrier to entry for smaller manufacturers – and the resulting competition hinders the supply chain manager's ability to set a predictable level of demand. As a result, market incumbents no longer have the luxury of simply protecting their existing market niche.

"In the 21st Century, the 'long tail' of the supply chain has grown," explains John Quinn, Senior Vice President of Global Account Management for Technicolor Global Logistics (TGL). "This has increased the complexity associated with managing supply chains and imposes significant pressures on suppliers' operations."

Strategic Considerations

While many executives rightfully place a high degree of focus on product development functions, such as research and development (R&D), design and engineering, the logistics of introducing new finished products to market requires an equivalent level of attention. In addition to creating demand via marketing and sales initiatives, supply chain management and execution is imperative in ensuring that products are manufactured and delivered to stores and customers on-time. As a result, the success of a product launch is often determined by thorough supply chain and logistics planning.

C-suite executives surveyed for a recent McKinsey & Co. report noted that supply chain issues are increasingly demanding their attention because achieving supply chain excellence is becoming more difficult. The report identifies several reasons for this, including globalization and complexity within production and distribution networks. While the optimization of the supply chain can help organizations boost growth and profitability, supply chain risks and challenges have exponentially increased. "Merely playing defense will not insulate companies from the pressures of global competition," writes the McKinsey & Co. analysts. "It will take optimism, vision, and agility to spot new opportunities and outmaneuver an increasingly crowded field. Successful firms have shown that it is possible to preserve profit margins while pursuing an aggressive growth strategy—and they do this by precisely targeting the fastest-growing market segments where they have the capabilities and assets to compete."

SCM Choreography

With stakes this high, taking a strategic view of supply chain optimization is critically important. An effective supply chain management strategy requires a tightly choreographed dance that reflects a deep understanding of the myriad relationships throughout the value chain.

3 - http://www.mckinsey.com/insights/operations/three_ways_ceos_can_improve_the_supply_chain

It stretches beyond mere technology management and into strategic, operational and financial considerations that executives at mid-market organizations must address – particularly when the future of a new product is on the line. For many consumer product industries, retail compliance is often a core challenge of a product launch initiative. "Retailers have greater expectations, and, thus, more stringent requirements; timelines are tighter, margins for error are thinner, and penalties for non-compliance are swifter than ever before" explains Rich Cusolito, Senior Vice President of Worldwide Sales & Supply Chain Services at TGL. And that burden is one which is put on the supplier, a burden that can be particularly challenging for mid-market companies serving competitive markets: "The retailer is maximizing their own demand function, so if there are multiple options in a category for a product, the reliable supplier who is fulfilling orders on-time and in-compliance probably gets more frequent re-orders."

That is why, in today's hyper-competitive environment, mid-market companies that are angling for retailers' limited – and precious – shelf space must make sure their supply chains can handle the reaction times to get the right amount of product to the right places at the right time. It is in this context that retailers are looking for opportunities to weed out the weak links in the chain.

Poor supply chain management can lead to several undesirable outcomes and consequences including:

- Missed deliveries, which translate into lost sales;
- Misreading demand, resulting in excess inventory;
- Inventory shortages that lead to lost opportunities;
- Slow time-to-market performance that cause longer replenishment cycles and heighten the risk for missed deliveries and lost sales; and
- Miscalculations of time-to-volume, which make it challenging to scale and ramp up quickly should demand exceed expectations

In the home entertainment business, for example, the major studios are looking for shorter cycle times, smaller lot sizes, and they want to chase demand efficiently, rather than ship a high volume of product, and then be faced with excessive and/or obsolete inventory.

"Ten years ago, you wouldn't risk a lost sale," Cusolito said. "You'd stuff the channel versus chase demand. Today, home entertainment studios, game companies and, to an extent, consumer electronics and peripheral accessory manufacturers – they're going to feed the channel to meet minimum retailer requirements, and then chase sell-through demand."

This hyper just-in-time environment places a great deal of pressure on hybrid supply chain providers. In fact, these new dynamics are challenging the value proposition of "low-cost" supply chains that stretch to Asia. It is why a growing number of executives are now looking at "near-shoring" alternatives – in proximal locations such as Mexico – that offer a high-value outcome because of the flexibility they offer in chasing demand.

Transparent Data-Driven Product Launch Strategies for Short-Lived Opportunities

During new product launch processes, it is particularly critical for mid-market companies to ensure that a host of expectations and requirements are met. It is imperative to deliver a high degree of transparency, intelligence and data-based insights to the customer in a way that delivers an integrated picture of what is happening across the value chain.

"Consumers today are so driven by popular media trends that put a premium on 'what is new'," says Elaine Singleton, Vice President of Supply Chain and Distribution for TGL. "'New' and available have become synonymous, which has created the expectation of instant delivery. That is a very high expectation with complex impact to a company's supply chain management."

The window of opportunity is not only small, but can almost instantly shut down after the initial spike in demand. "This requires a supply chain leadership structure that can provide an integrated view of all product that is in transit across all modes, as well as warehouse inventory.

It also requires executives to leverage analytics to determine the cost of servicing the unique needs of each shipper and retailer," says Quinn.

This is why executives with mission-critical product launch initiatives require a logistics partner that can serve as an aggregator of the complex data streams that parallel the equally complex flow of products through the eco-system -- regardless of whether the product is currently in inventory or in-transit via air, ocean, motor or rail. "Someone has to put together an integrated view in a dashboard so that executives can properly plan, execute and adjust to constantly changing market and demand conditions," says Singleton.

Transactional Focus vs. Value Bundling

So, how can logistics providers help mid-market companies orchestrate the space and capacity they need to ensure that their product arrives on time and is promptly distributed to retailers?

The answer lies in cultivating a deeper relationships among shippers, third-party providers and retailers. Large companies with substantial logistics resources can afford to invest in these key linkage points. Suppliers often say they need a logistics provider with access to the size and scope needed to manage a full spectrum of supply chain solutions in a strategic manner.

A strategic view of supply chain management -- which includes innovation and agility -- can drive considerable value for mid-market companies, but means that executives must move beyond a transactional view of the process.

"Picking up product at Point A and delivering to Point B is transactional," Cusolito explains. "If you establish a relationship with a shipper, with the right rate, and you have available capacity, in theory you should be successful in executing simple Point A to Point B transit."

"The problem is that conditions in the market do not often line up so neatly – especially in complex international and multi-modal scenarios."

In cases where the partnership is solely price dependent, companies likely will pick two or three providers and award the load to the lowest cost carrier available on any given day. It is an approach that can result in costly outcomes.

Key requirements for a strategic supply chain management framework include:

- Strategic product distribution networks;
- Time-driven, event-based transportation and freight management systems;
- Flexible multi-modal logistics partnerships
- The ability to process high return volumes;
- Solutions specific to unique situational requirements;
- A single portal for real-time product visibility;
- Leading edge information management and business intelligence systems.

Conversely, when executives focus on the value-outcomes rather than the transactional elements, the nature of logistics planning and execution changes dramatically. A strategic partner can support – or independently manage – import and customs management, distribution services, and outbound transportation, all while providing the reliability and visibility decision-makers depend on. The deeper relationship transforms the logistics provider from a traditional broker into a trusted partner that can bundle multiple solutions to deliver a high-value strategic service.

Case Study: Consumer Electronics Manufacturer

Consider the case of a mid-market consumer electronics firm that manufactures devices and distributes them to domestic and international mass-market and e-retailers. The almost instant popularity of the company's recent product launch resulted in high consumer demand. But with great success came significant challenges. As the company experienced strong growth, it faced challenges in scaling its worldwide logistics operations to meet growing demand. Non-compliant shipments caused tension with major big-box retailers. This failure to meet retailers' expectations elevated the risk of generating sizeable fees and penalties. The company recognized that it needed to design a high-velocity supply chain strategy to meet its customers' expectations. And to make that strategy work, the company needed a transportation strategy that was not only capable of reducing fees and chargebacks, but also had the ability to scale – particularly during the peak holiday shopping season.

The company partnered with TGL and its team of industry experts to develop a comprehensive solution for addressing a growing array of logistics challenges. TGL held numerous meetings with company executives to gain deeper insight into the company's business in order to meet its needs. TGL then developed a solution that combined scalability with cost-effectiveness and consistent, reliable service.

"In collaboration with the client, we created a plan in which we managed all of the client's requirements, inclusive of volume surges. That included international air freight as well as domestic over-the-road support" Cusolito explains. "To support a launch during the peak holiday season, we ended up constructing a transportation management program in which TGL committed to having trailers dropped in the distribution center's yard, as well as the necessary motor capacity, at any moment in time. This way the client could be assured that if they had an unforeseen order or re-order that needed to go to a retailer -- all they had to do was load the product and ship it," Cusolito recounts.

By using this strategy, the manufacturer never had to source an outbound carrier during their peak busy season. This means its products are always delivered on-time, within the delivery windows that retailers set for the manufacturer – without the expense and complexity of building a large in-house logistics operation.

Additionally, the client communicated challenges with accurate reporting and supply chain visibility – a challenge TGL solved by developing a custom reporting package, including a comprehensive metrics database which included ongoing retailer compliance and service metrics. These metrics were then consolidated into a concise executive summary for the client's organization. "It introduced a way to collaborate that removed many obstacles," Singleton explains.

The enhanced communication and improved process management brought more clarity and visibility to a complex supply chain than what could have been achieved by limiting negotiations to a transactional discussion of day-to-day shipping rates. The value-bundling-based approach to this logistics strategy changed the economics of the manufacturer's supply chain execution.

Finding the Optimal SCM Solution

When it comes to effectively supporting successful product launch initiatives, two of the key supply chain success factors that have to be in place are flexibility and resiliency. Mid-market executives have two options for achieving these requirements. They can:

- Build their own end-to-end organizational structure to account for all of the contingencies that can threaten delivery commitments; or
- Establish strategic relationships with supply chain providers that have the infrastructure, relationships, resources and technology already in place to assure optimal performance and offer complete transparency into the logistics process.

For most organizations, the costs associated with developing effective internal organizations are cost prohibitive. It is simply too expensive to put in place an experienced team that has the operational and technological resources to fully address the risks – and exploit the opportunities – associated with today's supply chain landscape.This is why a growing number of organizations in the mid-market segment are exploring how they can engage a supply chain management partner that can help them realize the full strategic benefits at an affordable cost. TGL has a strong track record of helping organizations solve complex, end-to-end transportation and logistics challenges.

After decades of optimizing the supply chains for major Hollywood studios and other content publishers, TGL now serves a variety of market segments including gaming, technology, electronics, and other consumer products and high-value goods.TGL has leveraged its size and scale to remain cost-competitive, while layering on professional services that make it possible for executives to focus on the operational quality, performance and service of their relationship with retailers. With diverse expertise in managing projects and product launches to over 10,000 retail locations on the same day, TGL has become their clients' standard partner for high-velocity supply chains."We have been able to provide value to a mid-market segment that depends on consistent and dependable "street-day" delivery of products by bundling and customizing services around inbound and outbound logistics to both the retailing and e-tailing channels," concludes Quinn.

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