The role of Supply Chain Management in a brand

By
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It's probably safe to assume that the supply chain doesn't figure strongly at most Malaysian firms. After all, in the last month how many times have you heard the classic line (normally delivered with an uninterested shrug of the shoulders) 'no stock lah'?

And despite the poor performance of global brands such as Sony, GM, Ford and other brands that use advertising to build their brands, it is sad, really, to hear agencies and consultants still talk about branding in terms of logos, slogans, ad campaigns, static websites and even new business cards while ignoring the role of supply chain management (SCM).

SCM is shorthand for the interconnected coordination of the flow of materials, information, and finances (credit terms, payment schedules, etc.) as they move in a process from supplier to manufacturer to wholesaler to retailer to customer.

Without effective SCM, companies cannot deliver on the promises made to customers which in turn leads to customer disloyalty -- the death knell for any brand. Just as importantly, ineffective SCM raises costs across the board. According to the consulting firm A.T. Kearney, supply chain inefficiencies can eat up to 25% of a firm's operating costs.

Poor SCM is the cause of many branding mistakes. Offerings are advertised without adequate inventory, leading to that all too familiar refrain 'no stock lah, can come back next week?' which results in unhappy or more likely, lost customers. Excess inventory leads to obsolescence or sales at a loss. Late deliveries disrupt customer schedules.

Such supply chain failings are common, but not easily fixed due to enormous complexity. Which is often why Malaysian firms ignore it. However, the problem of sales at a loss will not go away.

The supply chain is often visualized as serial linkages, like an assembly line, but actually it is a choreographed network of interconnected activities, each dealing with uncertainty, conflicting objectives and resource constraints.

Steve David, CIO of Procter & Gamble, lays out the vision of the supply chain as a branding tool: "To realize the vision of a fully integrated and efficient supply chain, we need to have data visibility across all of the supply chain. So when a consumer buys a roll of paper towels, the forest products company knows immediately they need to cut another tree to send to the pulp maker who supplies Procter & Gamble so that we can make another roll of towels to send to the retailer."

Achieving this vision requires progress in three interrelated areas. The first, of course, is greater use of the Internet to encourage collaboration and automate transactions within the supply chain. Remember that the phenomenal branding ability of the Internet does not rest on advertising but rather on its capacity to disperse the information fog that obscures supply chain activities.

Second, data integration standards are required. Sometimes, a powerful industry giant like Wal-Mart can enforce such standards; other industries may see protocols like XML as a solution. Finally, organizational imperatives have to evolve. Companies are still more concerned about information hoarding than - sharing.

Other areas to address include:

"Lean" or agile manufacturing: Most manufacturing today represents a holdover from the mass economy. By contrast, lean manufacturing seeks a system so responsive that production can respond to actual demand, rather than try to predict it.

Lean manufacturing enables short, profitable production runs with quick changeovers, or machine conversions to manufacture different products. Lean manufacturing requires redesigning manufacturing processes, increased supplier involvement and improved resource planning.

Logistics: Late deliveries are a prime source of customer unhappiness. Yet, according to an Economist survey of 70 global companies, only 22% of companies were consistently able to deliver on time. Companies must incorporate transportation management systems for routing and scheduling, or rely on advanced Fedex and other carrier capabilities to improve delivery experiences.

Forecasting: Accurate demand forecasting is one of the biggest supply chain challenges. Poor forecasts lead to lost sales or profits through excessive inventories. Unexpected sales fluctuations also burden the workforce as well as inventory and production management.

New demand planning systems can help. These systems combine sales history, promotional plans and other information with sophisticated algorithms to predict demand for each product, reducing the possibility of over- or underproduction. The best forecasts are achieved with close supplier and customer collaboration.

The payoffs from these initiatives can be substantial, especially since it's estimated that supply chain costs form 50%-75% of a product's final price. According to the consultancy FinListics Solutions, reducing SCM costs at a prototypical $5 billion company would increase annual profits by $20 million.

Consulting firm Pittiglio Rabin Todd & McGrath found that best-practice SCM companies had a 45% supply chain cost advantage over median competitors. They enjoyed a 50% faster cash-to-order cycle time, 50% fewer days of inventory and 2% fewer out-of-stock conditions.

Additionally, supply chain improvements also contribute to accountability, still being ignored in most branding discussions. Measurement can encompass three areas: performance, including order fill rates and return rates; cost savings, including inventory turns; and capital efficiency, including percentage of work-in-progress inventory to total inventory.

In the mass economy, marketing departments could build brands through "positioning," advertising and other tactics. In today's New economy, it requires an organizational effort to build a brand based on relationships. In the emerging Now economy, branding will require the coordinated efforts of the whole organisation.

Ask your agency, marketing or branding consultant how they see SCM affecting your company. If they look at you blankly, call us.