

SCE Helps a Leading Cosmetics Company Use Outsourcing and S&OP to Achieve Cost Savings and Competitive Advantage

The company is a leading manufacturer and marketer of hypoallergenic makeup and skincare.

The Business Challenge

For many global consumer products businesses, the supply chain can be a rich source of both cost-reduction and performance-improvement opportunities. That was the case for this company, which faced long, variable lead times for key inputs (many of which were expensive and sourced from different regions of the world), uncertain consumer demand, and growth in the sale of low-margin items purchased through discount retailers.

The company faced internal challenges as well: The sales force was not always aligned with customers' strategies and performance objectives, while a complex IT infrastructure that blended off-the-shelf with custom solutions hampered its efforts to understand and improve supply chain performance.

To address the effects these factors had on its financial performance and profitability, the manufacturer approached Supply Chain Edge (SCE) for help. In particular, the company wanted to partner with SCE to identify and prioritize opportunities to derive more value from its supply chain rapidly and cost effectively. The company was confident SCE's proven approach to supply chain assessment would not only reveal such opportunities, but also help it choose and implement the initiatives that were most urgent and worthy of immediate investment.

How Supply Chain Edge Helped

SCE began its work with an end-to-end assessment of the company's supply chain. To ensure the team would uncover as much potential value as possible, this assessment was wide-ranging, encompassing pur-

chasing, manufacturing, customer service, inventory management, distribution and transportation.

One of the key challenges of any supply chain improvement initiative is knowing how good is good enough: Performance levels and potential savings can vary widely by industry and company, and chasing the wrong goals can be a waste of time, money, and effort. Thus, as part of the assessment, SCE identified 10 cosmetics companies that would provide meaningful benchmarks for the client. As SCE's professionals reviewed a host of potential benchmark companies, they carefully considered the client's context—for example, the fact that it sold through mass merchandisers and drug stores, that the bulk of its revenue came from a handful of retailers, and that its supply chain was global in nature. SCE also worked with the manufacturer to identify the specific data points that would make this benchmarking as valuable as possible. Reviewing the company's goals and challenges, SCE jointly chose metrics such as distribution and transportation costs, growth in net sales, and a series of productivity and customer service metrics.

Comparing the company's data with the benchmark group, SCE identified in excess of 15 near-term and long-term improvement opportunities in two categories—operational and inventory—that combined were worth more than \$20 million in annual savings. In fact, SCE's analysis revealed the company lagged its competitors in many aspects of supply chain performance, including cost management. For instance, cost of goods sold as a percentage of gross sales was 23 percent on average for benchmark companies, versus 30 percent for the client. Inbound transportation was

just 4 percent of sales for the benchmark group—and 16 percent for the client.

The company also trailed its competitors in supply chain efficiency and effectiveness. Average months inventory as a percentage of shipments for benchmark companies was 12 percent, versus 36 percent for the client. Even more strikingly, for the benchmark group, excess/obsolete inventory as a percentage of total finished goods inventory was 29 percent, while for the cosmetics company it was a staggering 116 percent. Likewise, the company's cycle count accuracy (87 percent) significantly lagged that of benchmark companies (99 percent).

Such shortcomings are perhaps most important when they jeopardize customer relationships. In this regard, the company had much room for improvement: While the client only filled 75 percent of customer orders completely, its competitors filled 95 percent.

Clearly, it would be difficult for the company to pursue all of these improvement opportunities at once in an effective and efficient way. Therefore, SCE helped the manufacturer identify the best opportunities to pursue in the first year of the initiative—approximately 25 percent of the total potential value—and determine which should be deferred to subsequent years. The two initiatives deemed most important immediately were shifting distribution and logistics to an integrated third-party logistics (3PL) provider and implementing an effective sales and operations planning (S&OP) process.

By engaging a 3PL, the company would gain access to sophisticated processes and systems that would drive better customer service and lower costs, all with greater scalability and process standardization than an in-house function could deliver. In addition, a 3PL's scale advantages could help the company mitigate volatility in its transportation costs, and the company would benefit from a 3PL's ongoing investments in technology and productivity enhancements. An effective S&OP process would add more structure and a sharper focus on key performance metrics to the company's decision making which, in turn, would help the

company further reduce its supply chain costs while improving customer service.

Eager to realize the potential value of these opportunities, the company asked SCE to pursue both initiatives in parallel.

Outsourcing Transportation and Distribution

To enable the company to forge a high-value relationship with a capable 3PL, SCE helped draft a comprehensive request for proposal (RFP) that contained in-depth information about the company itself and so-

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lited comprehensive data on each potential provider's business and proposed approach. As described in SCE's white paper "Distribution Outsourcing: Creating and Executing an Effective Supply Chain Partnership," unlocking the value of any 3PL relationship requires providing sufficient information to 3PL providers on the company's business, including such things as shipping

volumes, cyclicity, customer requirements, in-house systems, and any other factors that might shape potential vendors' responses. At the same time, an RFP should specify which data must be provided by the vendors, typically including key financial metrics and details on each 3PL's capabilities and business models. The ultimate goal is to provide the 3PL with an end-to-end view of the company's operations—including any idiosyncrasies and unique challenges—so the vendor can provide an effective, integrated solution that covers all aspects of the supply chain.

Working closely with the cosmetics company, the SCE team gathered all the information required to formulate an effective RFP, which required extensive cross-functional collaboration. Because some stakeholders had not yet fully embraced the idea of outsourcing transportation and distribution, pulling this information together required the SCE team to help the company's leadership team foster internal support for the initiative.

Ultimately, the company received several proposals in response to the RFP, which SCE then helped the company evaluate using SCE's proprietary vendor evaluation matrix. This matrix incorporates 39 dif-

ferent metrics, including each vendor's ownership structure and financial strength; experience in the company's industry and with the company's customers; economies of scale; and management's knowledge, flexibility, and reputation. The matrix also encompasses each 3PL's ability to offer a single point of contact for the company, the functional breadth of its IT systems, the strength of its financial controls, and its respective implementation capabilities. Importantly, each member of the SCE team completed this evaluation independently, only comparing notes at the end of the process. Doing so ensured full objectivity and a wide range of insights on which provider would be the company's best partner.

The company accepted SCE's recommendation and asked the SCE team to facilitate its transition to the chosen vendor. One of the keys to the transition was SCE's help in creating a scope-of-work document that specified the details of the company's relationship with the 3PL, including product returns, promotions, excess and obsolete inventory, picking systems, the interfaces between the 3PL and the client's IT systems, and how the 3PL's performance would be measured. This document helped ensure that all parties were "on the same page" and costly surprises were avoided as the transition unfolded.

Implementing S&OP

Concurrent with the 3PL initiative, SCE worked with the cosmetics company to develop and implement a fully integrated S&OP process that would enable the company to track and improve the alignment between strategy and operations on a continual basis. There were three major aspects of this project: helping the company select a collaborative sales forecasting solution to support an S&OP orientation, ensuring that all key stakeholders had the training and knowledge they would need to drive maximum value from the new S&OP process in the long term, and boosting the accuracy and accountability of the forecasting process.

SCE worked closely with the company to select a collaborative forecasting solution well-matched to the company's IT infrastructure and business strategy. SCE played a central role not only in choosing this so-

lution, but also in negotiating the vendor's fees and the services it would provide to help the company integrate the application with its legacy IT systems. Likewise, SCE helped the company and the software vendor create and execute a customized training program to enable account and sales managers to develop the skills they needed to fully utilize the platform.

As with the adoption of any major new technology or process, education and communication was critical to the company's obtaining sustainable benefits from S&OP. Thus, SCE also led an in-depth, multi-day workshop designed to help the company's management team understand what sales and operations planning is all about, how it would help the company achieve its cost-reduction goals, and how each person would be involved in and affected by the process. This workshop involved a wide range of

company functions and levels, from the president to professionals in sales, supply chain management, finance, IT, and other key areas of the business, and it emphasized both the key success factors and the pitfalls of S&OP. As the new process was rolled out, SCE continued to facilitate monthly meetings of the company's leaders, focused on key elements of the S&OP process, to help maintain top management's support of the process—without which it would die on the vine.

A major factor influencing the success of S&OP is the culture shift that typically accompanies the new process and technology. At this company, a big part of shifting culture was changing how the company handled forecasts. In the past a small, dedicated team had created sales forecasts and "pushed" them to the sales force and to the company's manufacturing division. In the new S&OP process, the sales force itself creates forecasts each month for their respective accounts and reviews them with company leadership, key supply chain personnel, and members of the SCE team to confirm the forecasts make sense, review the accuracy of past forecasts, and make any necessary adjustments. Importantly, the sales force now is held accountable for forecast accuracy, which now is checked and improved upon continually (unlike in the past, when forecast accuracy was rarely evaluated).

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In short, the new S&OP process helps the company ensure it not only has a good handle on what the market wants, but also can make and ship those goods to meet customers' expectations.

Results and Benefits

SCE continues to help this company make full use of its new 3PL relationship and S&OP process to drive better business results. For instance, while some elements of the integration between the company and the 3PL are still in progress, to date the relationship is on track to generate nearly \$2 million in annual savings.

From an S&OP standpoint, the company has gained a much more rigorous, cross-functional approach to planning key elements of its sales and operations. Senior leadership now has better visibility into demand, supply, inventory, financial results, and the performance of the supply chain, and is more able to pull the right levers in response to marketplace shifts. This is especially important when it comes to forecasting demand for new products. While in the past the company's lack of historical data was a significant handicap

for such new product forecasts, its S&OP process now provides the structure, rigor, and information required to reduce the amount of guesswork involved.

While the financial benefits of the company's new S&OP capabilities still are coming to fruition, the use of S&OP has the company on track to save nearly \$2 million in the first year, and the company anticipates saving an additional \$3.2 million annually through improvements in obsolete and excess inventory and cost of goods sold. This represents only one-third of the potential identified in the assessment.

Keeping pace with the volatile consumer goods industry can be a challenge for even the most adept companies. It's especially difficult for companies that lack the operational capabilities that are key to strong financial performance. Working with SCE, the cosmetics company now has the operational structure, accountability, and scalability it needs to confront challenges such as higher material costs and shrinking margins—and, thus, maintain its competitive edge. ?

About Supply Chain Edge

Supply Chain Edge is a team of seasoned supply chain specialists who are highly skilled in identifying, quantifying, and capitalizing on opportunities that drive performance improvements in key areas such as business growth, earnings per share, return on capital, margins, cash-to-cash cycle times, and customer service.

Supply Chain Edge is unique in two important ways: Our extensive experience in numerous supply chain initiatives with dozens of companies enables us to bring best practices used by other enterprises to every project while working collaboratively with a client's existing internal talent. And, we don't simply advise clients what they should do, but instead, help them execute more effectively and efficiently to realize tangible, quantifiable financial gain.



Maximize Your Profits and Increase Your Competitive Edge. Supply Chain Edge is a team of experienced supply chain advisors. SCE delivers improvements to key business metrics such as business growth, earnings per share, margins, return on capital, cash-to-cash cycle times, and expanded margins and profits to those clients we serve.