The best of both worlds
Strategies for a high-service, low-cost supply chain
Consumer product and retail companies are facing two competing yet equally necessary imperatives: To meet the needs of increasingly demanding customers while, at the same time, reducing costs. The traditional supply chain model—forecasting demand, placing orders with suppliers, transporting product to warehouses, and storing the product until customers order—is the worst of both worlds. It is neither efficient, nor does it allow for customization.

Leading consumer product and retail companies have learned how to meet the twin imperatives of higher customer service and lower costs by redesigning their product flow from suppliers to customers. They understand that logistics and distribution—typically representing more than 70 percent of non-product supply chain costs—can make or break the ability to deliver on this vision. By using a combination of different product flows and supply chain management strategies, these companies have managed to reduce logistics and distribution costs by as much as 30 percent while improving service to their customers. Here are three of their most valuable strategies:

**Overseas consolidator services**

Manufacturers, distributors, and retailers that source goods from locations worldwide are increasingly turning to global consolidation centers. In addition to reducing transportation costs, these centers can offer basic services like inventory sorting while providing value added services such as customized packaging, minor product customization, and store-level labeling. Some retailers are even having their consolidators take over inspection centers and customs management as another way to reduce the multiple interactions between manufacturers, distributors, and retailers.
Direct-to-store (DSD)

Not all products must go to the distribution center. Some can be directly shipped to the stores, thereby reducing costs related to put away, storage, pick, pack, and shipping. A leading clothing retailer that sources primarily from Asia and distributes in the U.S. redesigned its product flow with this strategy in mind. Instead of product going first to a U.S. distribution center, initial seasonal floor-sets were pre-labeled for store delivery, shipped by sea in consolidated containers, and dropped into a small package provider facility for final delivery. This simple model allowed for the customization of individual store needs while eliminating storage in the distribution center and, not insignificantly, an entire leg of transportation.

Cross-docking

Companies are increasingly using cross-dock facilities in conjunction with DSD and new joint delivery networks to improve warehouse and transportation utilization. For example, a leading bottler typically ships product from its bottling facility to an adjacent warehouse, from that warehouse to a distribution center, and then to individual stores. With the system that the bottler is currently testing, product is shipped to a business center and then delivered by a third-party logistics company to a warehouse. When stores need replenishment, product will be delivered, along with other products, from a single warehouse. Cross-docking can result in 30 percent higher inventory turns—a boon to companies eager to reduce handling and warehousing costs.

These examples are a result of looking at the supply chain through an end-to-end customer-centric perspective. This perspective often identifies new opportunities for service-level improvements and cost reductions that functional stovepipes could never deliver.

In a business landscape where competition grows on a daily basis, no consumer or retail company can afford to ignore its customers’ needs. Yet providing differentiated products and services does not have to add new costs to the equation. By developing new logistics and distribution strategies, companies can do right by the consumer and their own bottom line.
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