Re-Defining Supply Chain Agility in 2011

3 Steps to Handling Pressure from Fickle Consumers & Rising Sourcing Costs

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Most retailers and brands today are experiencing a vice-grip effect in their supply chains: they're being squeezed tightly by rising cost of goods and uncertain consumer demands. Commodity prices, shipping prices and labor prices have been soaring as inflation concerns grow. Economic uncertainty continues to impact consumer confidence and spending habits are difficult to track. Retailers and brands are faced with a dilemma: pass along rising costs to consumers who may not be willing to spend more, or absorb rising costs and try to find new and smarter ways to do business. The key is to operate an agile supply chain that enables a smarter way of doing business. Here is how.

■ Collaborate & Communicate With Suppliers

The agile supply chain of 2011 is based on partnership. Retailers and brands that set out to partner with not only their tier one suppliers but level two and three suppliers all the way down to raw materials have a significant advantage today. In recent years there's been significant investment at the front of store to get closer to customers, improve forecasting, and leverage demand signals and data to become more demand driven. Innovators of today are turning their attention to the other end of the supply chain – doing things like:

■ Sharing forecasts and plans with suppliers prior to the PO

■ Collaborative supply planning

■ Booking capacity and raw materials early

Multi-party communication prior to the PO provides common visibility into plans and expectations. Brands and retailers that ensure capacity and

reserve raw materials in advance can lower materials costs, shorten lead times and reduce markdowns.

Where to begin? Confirmation and communication have always been manual and time-consuming processes. Email, spreadsheets and phone are prevalent. Today this can be done online, in an automated environment. Start by looking into online platforms that connect all trading partners in one place, where one version of data exists. True visibility and automation enables true collaboration where all parties can work together. Collaboration prior to the PO allows retailers, brands and suppliers to do the following:

- Forecast and manage commitment to raw materials
- Share and validate capacity and corresponding supply plans
- Confirm and negotiate PO terms (quantities, dates, prices)

It's a major challenge when changes aren't broadcast or reflected in the system. Many companies still use email and spreadsheets. Look for solutions that automate this process and deliver benefits like exception-based processes, or that can identify and flag differences in expectations among parties and feed changes back into the system in real time.

■ Keep a Tight Grip on Raw Materials and Capacity

Communicating early with the supply network enables clear communication of capacity and material needs. The planning ahead process can be quite simple once a process is in place. Here's an example: Prior to each season a brand communicates its needs by category with suppliers and mills. Each supplier validates whether it can meet that capacity or identifies where expectations need to be adjusted.

Multi-party visibility and communication aligns supply chain expectations and allows the broadcast of changes to forecasts, plans, commitments and POs. Parties can agree on performance and expectations in advance. Expectations are aligned with reality of capacity and constraints. Information is available from every point to ensure on time delivery.

Collaboration prior to the PO and booking materials and capacity in advance can open the door to postponement strategies, where time-phased commitments to materials and production capacity allow later decisions on styles, colors and sizes. Postponement allows execution of orders based on a more clear demand picture.

■ Help Your Suppliers Obtain Access to Cash to Address Rising Costs

Access to capital can be a severe bottleneck when working with small manufacturers and factories overseas. As material costs rise, so does the risk of capital-related delays. Suppliers today require access to capital earlier in the transaction lifecycle. Brands and retailers that help their suppliers obtain financing earlier based on their size and financial strength can create benefits for both parties and enable a more agile supply chain.

Let's use early payment discount programs for example: an order moves from buyer to supplier and the supplier can either wait until payment due date or select to receive an early payment at a discounted rate. Now, more than ever, suppliers are electing to take early payments. The buyer has an opportunity to either use its own capital, let a bank provide the financing, or use both. Many buyers have more cash on hand at some periods of the year and less at others, so they offer a mix of bank- and buyer- funded programs to their trading partners.

Early payments also tie into terms extension programs. Brands and retailers that transact with suppliers in countries with high capital costs can extend payment terms from 30 days to 45 without straining their partners. By offering early payment programs, terms extension can be made while removing the burden on suppliers by making cash available in five days, at rates close to 7%. Do the math. A company operates in a high cost of capital market with rates of 12-13% and sells its receivables while working on 30-day payment terms; or it gets paid in five days through an early payment program at 7 or 8%, with 45-day terms. It doesn't cost a penny more. If a retailer has cash in the bank getting 2%, why not earn 6% or 8% by discounting your own receivables – and then extend payment terms by 10 or 15 days? It's a huge working capital win.

Re-Defining Supply Chain Agility

Supply chain agility in 2011 is based on communication and collaboration. It's essential to:

- Plan and coordinate prior to the PO
- Communicate needs, limitations and expectations throughout the transaction lifecycle
- Insert financing into the supply chain to ensure suppliers have capital they need

About the Author

Bob Copeland heads TradeCard's emerging product strategy to enable retail and consumer goods companies to capitalize on cloud technology in the supply chain to improve visibility, agility and margins.

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