Beyond the Chaos

Supply chain survey shows what separates *relaxed responders* from *stressed suppliers*

Alloy

Supply chain responsiveness hasn't always been top news, but COVID-19 changed that. Unanticipated demand created sudden shortages of toilet paper and hand sanitizer. At the same time, companies found themselves scrambling when abruptly cut off from overseas suppliers. Images of empty store shelves captured global attention.

Even when it's not top news, though, supply chain teams are hard at work ensuring products are where they need to be. Day by day, they're fighting fires to keep customers and shoppers happy. That's why we commissioned a study focused on their experience – to understand their unique needs and problems, and uncover solutions and best practices.

In summer 2020, we surveyed 500 North American supply chain professionals working at brands that manufacture a wide range of consumer products, spanning electronics, food, home goods, personal care and more. Representing positions from manager/analyst to C-suite level, the results offer a fascinating look into how today's teams manage inventory, orders, customer service and planning to achieve their supply chain objectives.

Come explore the data and insights with us. How does your experience compare, and what do the conclusions mean for your own supply chain operations?

Respondent Overview

Job Title

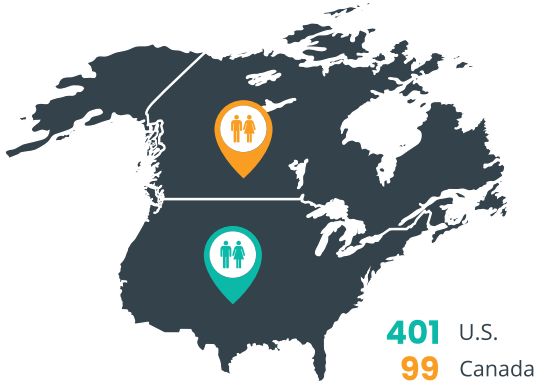
- 5% Coordinator/ Analyst
- 41% Manager
- 25% Director
- 8% President/VP
- 21% C-level/Owner

Company Size

- 28% 100-499 employees
- 26% 500-999 employees
- 32% 1,000-4,999 employees
- 14% 5,000 or more employees

Areas of Responsibility

Location



401 U.S.
99 Canada

The gap between plans and reality looms large

The message that came through loudest? Supply chain experts across industries regularly struggle with unforecasted changes. In other words, reality often deviates from plans – and then teams must rush to fix the problems.

The numbers speak for themselves:

- 71% said they face an unexpected change in customer orders at least a few times a month
- 66% face an unexpected change in consumer demand at least a few times a month
- 61% see unexpected changes in sell-in with the same frequency

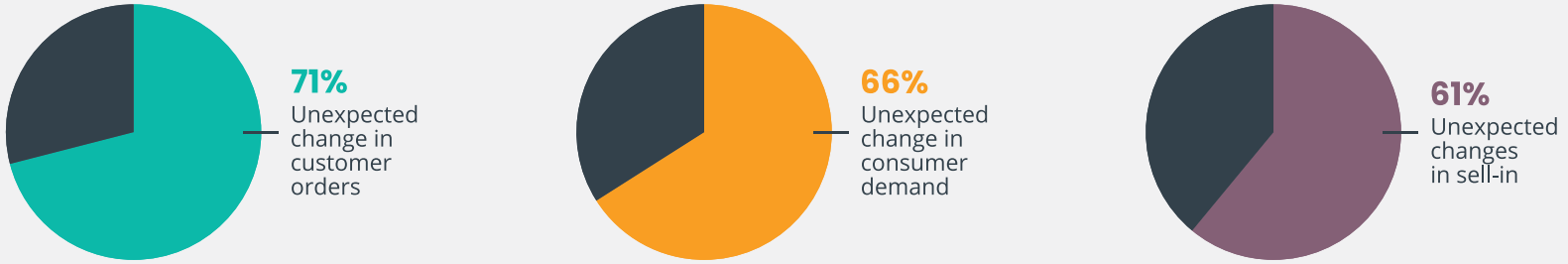
The result is a frenzy of frustrating activity as teams rush to piece together data, make quick sense of it and find a way to avoid out-of-stocks, OTIF fines, unsaleable inventory, damaged relationships and other costs. It often leads to expensive, last-minute fixes. Seventy eight percent of respondents said they expedite shipments at least weekly.

In a recent webinar, Glenn Lawse, Vice President of Supply Chain at Ferrero USA, gave voice to this common supply chain experience:

> *Reality never matches the plan…I'm sure this is something we're all familiar with… So typically you end up firefighting. You're trying to pull inventory. You've got inventory, [but] it's in the wrong place. You've got inventory, [but] it's the wrong code. The plans that you designed to sell one set of products turns out to have demand on another set of products.*

Webinar attendees strongly agreed. In a more-informal poll conducted during the live session, an overwhelming 82% said they dealt with an unexpected change in customers' orders at least once a week – and 39% said they do so daily.

Respondents said that at least a few times a month, they experience...



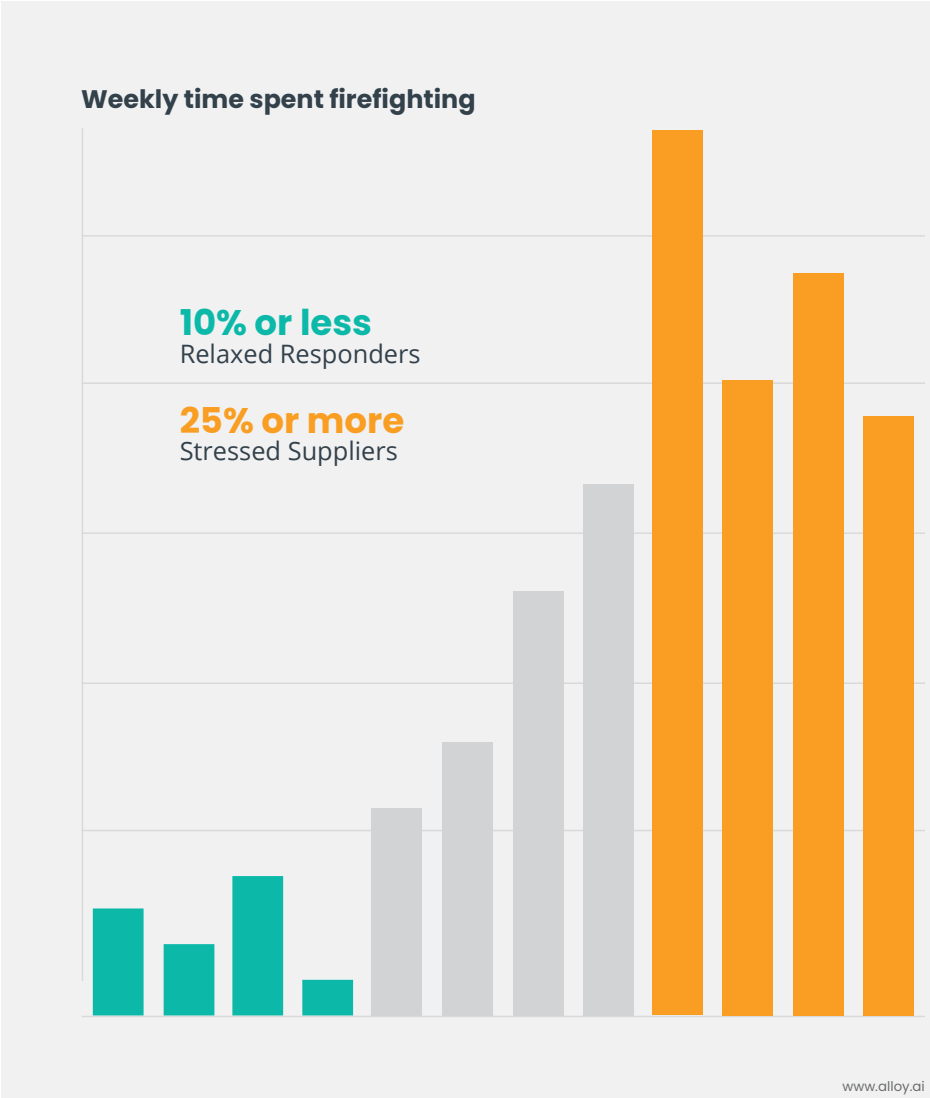
Stressed suppliers, relaxed responders...and what we can learn from them

The gap between plan and reality is as damaging as it is common. In addition to the costly expediting, fines, out-of-stocks and lost sales, it frustrates supply chain personnel, who feel like they're just running from one fire to the next. And the whirlwind of changes never stops long enough for teams to get ahead.

While we may never get rid of regular unexpected changes, there's plenty we can do to improve the experience of solving them. The survey demonstrates that supply chains don't have to be locked into a perpetual cycle of firefighting, solving issues that show themselves just before disaster strikes. In fact, separating out supply chain professionals who handle changes effectively from those who don't indicates best practices for everyone.

To highlight those nuances, we divided survey participants into groups based on how much time they said they spend "firefighting," or reacting to pressing supply chain problems. *Relaxed responders* spend just a few hours a week or less on this type of activity. *Stressed suppliers*, however, devote considerably more to frustrating firefighting – 25% or more of their time every week.

The groups were relatively similar in many ways, including the industries in which people worked, the emphasis they placed on cost reduction and strengthening customer relationships, and how many people were typically involved in formulating a response to an unexpected change (two to five people is most common). The meaningful differences between the two groups, though, reveal some helpful insights. Teams can reduce the time they spend firefighting and increase supply chain responsiveness by following their example.



Data and alignment challenges slow down responses

When reality deviates from plan, *relaxed responders* are able to act quicker. For unexpected changes in customer orders, it takes a whole day and a half less for them to respond than it takes their *stressed supplier* counterparts – an average of 2.1 compared to 3.7 days. We see similar differences in response times to an unexpected change in sell-in (2.8 vs 3.9 days to respond) and to changes in consumer demand (2.5 vs. 3.3 days).

In other words, *relaxed responders* have more agile supply chains. But how do they achieve this responsiveness?

For starters, we see they face fewer challenges to responding than *stressed suppliers* do. At a high level, 64% of all respondents said their lack of supply chain visibility is a barrier to them. However, *stressed suppliers* are 30% more likely to say so compared to *relaxed responders*.

Even more strikingly, 65% of respondents consider the gap between planning and execution a problem, but *stressed suppliers* are 48% more likely to struggle with it. That's the gap across teams, processes and systems that makes it hard to see a deviation from plan and make the necessary adjustments to prevent issues.

A variety of challenges contribute to it, including how hard it is to:

- Access data
- Harmonize data, such as translating across different product identifiers or units
- Analyze data
- Determine the impact of unexpected change
- Align the team on the right response
- Coordinate the team to execute the response

THE DIFFERENCE OF A DAY

> *How a day's lag translates into lost sales or increased costs varies from case to case, but some blanket statements seem appropriate. The difference of a day can mean filling an order on time or not, and thus incurring fines or suffering out-of-stocks that lead to lost sales when you can't meet demand.*
>
> *The stakes are even higher for seasonal items, of course. For example, creative-tech leader Kano Computing saw sky-high Black Friday sales that dropped unexpectedly in many locations the next day. The reason, they discovered, was out-of-stocks at those stores. Inventory was sitting at warehouses, but it arrived too late to take advantage of Black Friday crowds. They at least had the opportunity to recover for the rest of the holiday season, but contrast an item available December 24th…and that same item arriving on shelf the day after.*

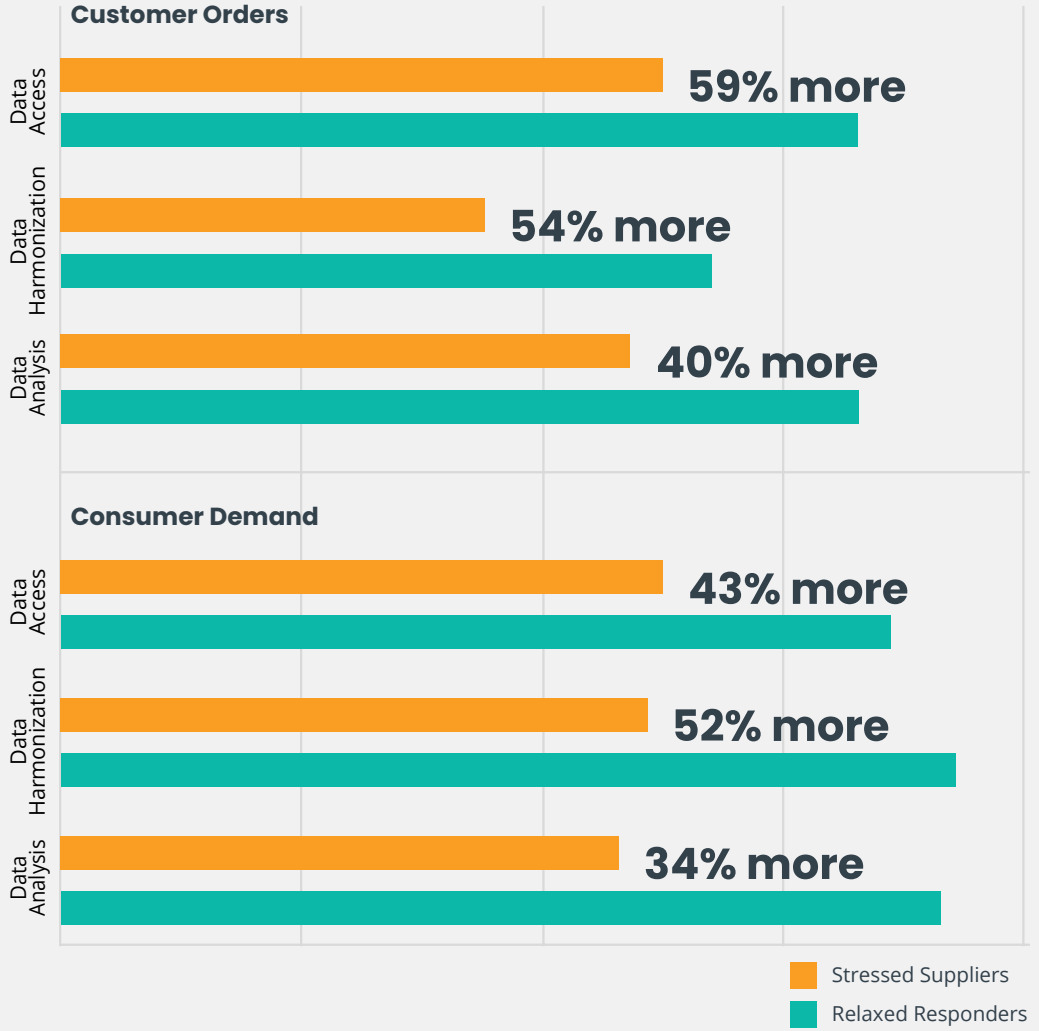
Data is clearly a much bigger headache for *stressed suppliers*, from access through analysis. Across all three scenarios described above (unexpected changes in customer orders, consumer demand and sell-in), they suffered data-related challenges at substantially higher rates.

The most common scenario, customer-order surprises, is also the most problematic for *stressed suppliers*. They're 59% more likely than *relaxed responders* to call basic data access a problem, and 54% more likely to admit challenges with data harmonization. Notably, data harmonization is a particular challenge when it comes to consumer demand, when brands often have to cross-reference data from multiple retailers, each with different formats, units, nomenclatures and time intervals.

Aligning the team on the right response also stands out as a challenge. For customer-order and sell-in changes, where sales and supply chain may have different views on the issue, *stressed suppliers* are 36% more likely than *relaxed responders* to have trouble gaining agreement. It's easy to identify a likely culprit: the lack of a single source of truth. Each team operates with its own set of data (or worse, just gut feelings) instead of coming to agreement based on a shared understanding of current demand and inventory needs.

These differences in supply chain visibility, data access and harmonization, and cross-functional alignment point to what should be top priorities as supply chain leaders decide what problems to tackle first.

Stressed suppliers are more likely than _relaxed responders_ to face these challenges when confronted with unexpected changes

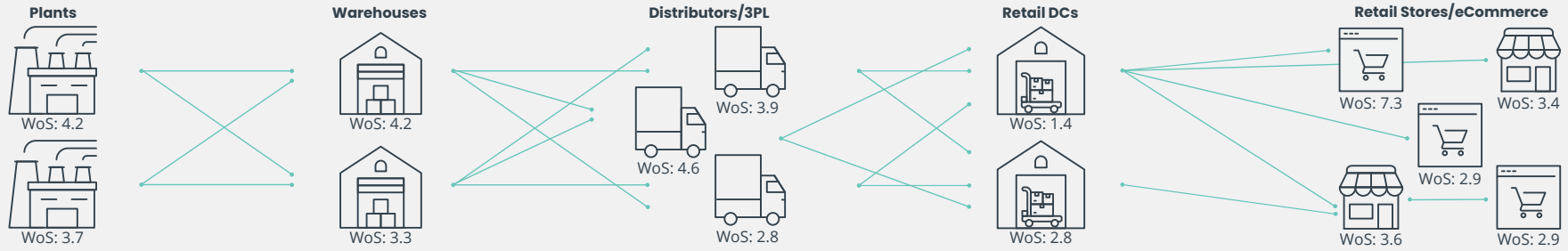


Understanding where it hurts most: the key to proactive decision making

Part of the *relaxed responder* approach is knowing as soon as inventory levels aren't right anywhere in the supply chain, whether due to an unexpected customer change or supply disruption. It gives them time to address future shortages or overages, before the crunch hits and firefighting is the only solution.

At every node in the supply chain – plants, warehouses, distributors, customer distribution centers and retail stores – an equal or greater portion of *relaxed responders* have the ability to determine whether inventory is too high or too low, i.e., whether they have the right amount of inventory at each of these locations. They particularly stand out when it comes to their own warehouses (where they are 20% more likely to be able to see inventory levels and determine inventory health) and down at the retail store level (where the difference is 15%). Because knowledge of over- or under-supply, especially further upstream, gives more opportunity to act, those with early notice will fare better…and spend less of their time fighting unexpected blazes.

***Relaxed responders* are more likely than *stressed suppliers* to be able to assess inventory health**



When asked how long it takes to analyze inventory health for a given product at a given location, *relaxed responders* were 48% more likely than their more-frenzied counterparts to say they spent less than an hour. In other words, they could get the inventory information they needed, and they could get it fast.

What are the requirements for confidently determining supply chain health, and doing so quickly?

One is an up-to-date supply chain map, which shows the relationship between every location in your supply chain and how different products move through it, from plant to store. Twenty percent more *relaxed responders* than *stressed suppliers* say they're "very confident" in the accuracy of their supply chain map. Because these supply chain relationships are regularly changing, one of the best ways to keep your map up-to-date is to use actual transactional data.

Another is a clear sense of consumer demand to determine how much inventory should be at each point in the supply chain and against which you can compare current inventory levels. Because *relaxed responders* are 20% more likely than *stressed suppliers* to use point-of-sale data all the time in decision-making, they possess a better understanding of what's needed from them.

As we again dig deeper into why *stressed suppliers* are less likely to use POS data all the time, we find they are much more reliant on cumbersome, inadequate methods to analyze it, likely holding them back from leveraging this valuable demand signal more often.

For instance, they're 72% more likely to use standard BI tools that are clunky to customize for specific use cases, hard to manipulate and only as useful as the data they're fed. That was the case with eero, a manufacturer of mesh WiFi networking solutions. Before implementing Alloy, they relied on manual processes to clean and update data that was then loaded into a BI tool they had spent significant time setting up. However, it couldn't harmonize data across retailers or integrate information like forecasts and promotions, limiting cross-retailer analysis and predictive insights that could help them understand overall demand trends and make actionable recommendations.

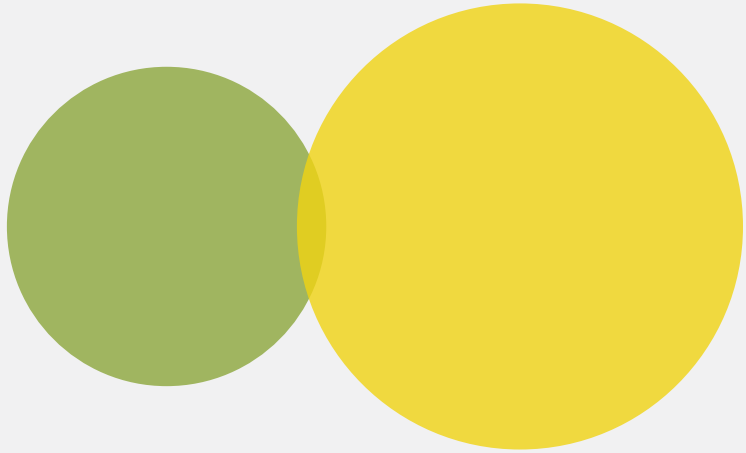
Also: *stressed suppliers* are nearly 1.5 times more likely to use external consultants than their less-stressed peers. Why does that matter? It means they're outsourcing expertise, rather than empowering their own teams. It's critical to build in-house capabilities to quickly respond to changes and drive a culture of demand-driven decisions.

Together, POS insight and an up-to-date supply chain map enable teams to easily translate inventory levels into Weeks of Supply and an assessment of supply chain health at every location. It adds up to a real advantage for *relaxed responders*, who can confidently and quickly spot issues, and thus proactively manage changes as they come.

OPPORTUNITY FOR IMPROVEMENT

Overall, 80% of companies assess inventory health at least weekly, but the exercise could be more valuable if the analysis were more robust. Only 45% use units in transit, 41% use retailer forecasts, and 47% use internal forecasts to assess inventory levels. These forward-looking metrics need to be taken into account for predictive analytics that can simulate the future and help you get ahead of coming issues.

Stressed suppliers are more likely than _relaxed responders_ to use inefficient methods for POS analytics



72%
more likely to use standard BI tools

148%
more likely to use external consultants

A bonus benefit: increased forecast accuracy

Less firefighting and faster response times aren't the only benefits *relaxed responders* enjoy over their counterparts. They were also three times more likely than *stressed suppliers* to say their average pre-COVID-19 demand forecast accuracy was 90% or more.

We think there are some interrelated relationships here, such as:

- Spending less time firefighting enables these companies to spend more time producing quality forecasts
- Proactively responding to changes makes the adjustments more likely to be documented and used to improve forecasting
- Incorporating point-of-sale data in all aspects of decision making, including forecasting, increases accuracy

It's worthy of further research as survey participants themselves highlighted the importance of forecast accuracy: 92% overall said increasing forecast accuracy is a supply chain priority, and *stressed suppliers* are 57% more likely to consider it a major barrier to achieving their supply chain objectives.

Independent analysis also confirms the significance of even small forecast improvements. The Institute of Business Forecasting found that consumer goods companies can save an average of $3.52 million a year by improving under-forecasting by just 1%, and $1.43 million with a single-percent improvement in over-forecasting. According to Gartner, a single percentage point forecast-accuracy improvement also results in:

- 3.2% reduction in transportation costs (as a percentage of sales)
- 3.9% reduction in inventory obsolescence (as a percentage of inventory value)
- 2.4% decrease in order-to-deliver time

Major barriers for *stressed suppliers*

The path to becoming a *relaxed responder*

The differences between *relaxed responders* and *stressed suppliers* indicate key steps to reduce the firefighting when customer orders, consumer demand and sell-in change unexpectedly, or countless other situations when the gap between plans and reality arises.

Automate data harmonization

Data is often half the challenge, with problems accessing, harmonizing and analyzing it slowing down responses. The sooner you can see what's going on and understand the impact of changes, the sooner you can get to actually resolving them – ideally before a fire even crops up.

Ensure an accurate, up-to-date supply chain map

A supply chain is exactly that: a linked network where a change in one location affects all the others. Knowing the relationships between locations is essential to connect a supply or demand issue in one place to all the other nodes that will be impacted and proactively manage inventory to prevent last minute fires.

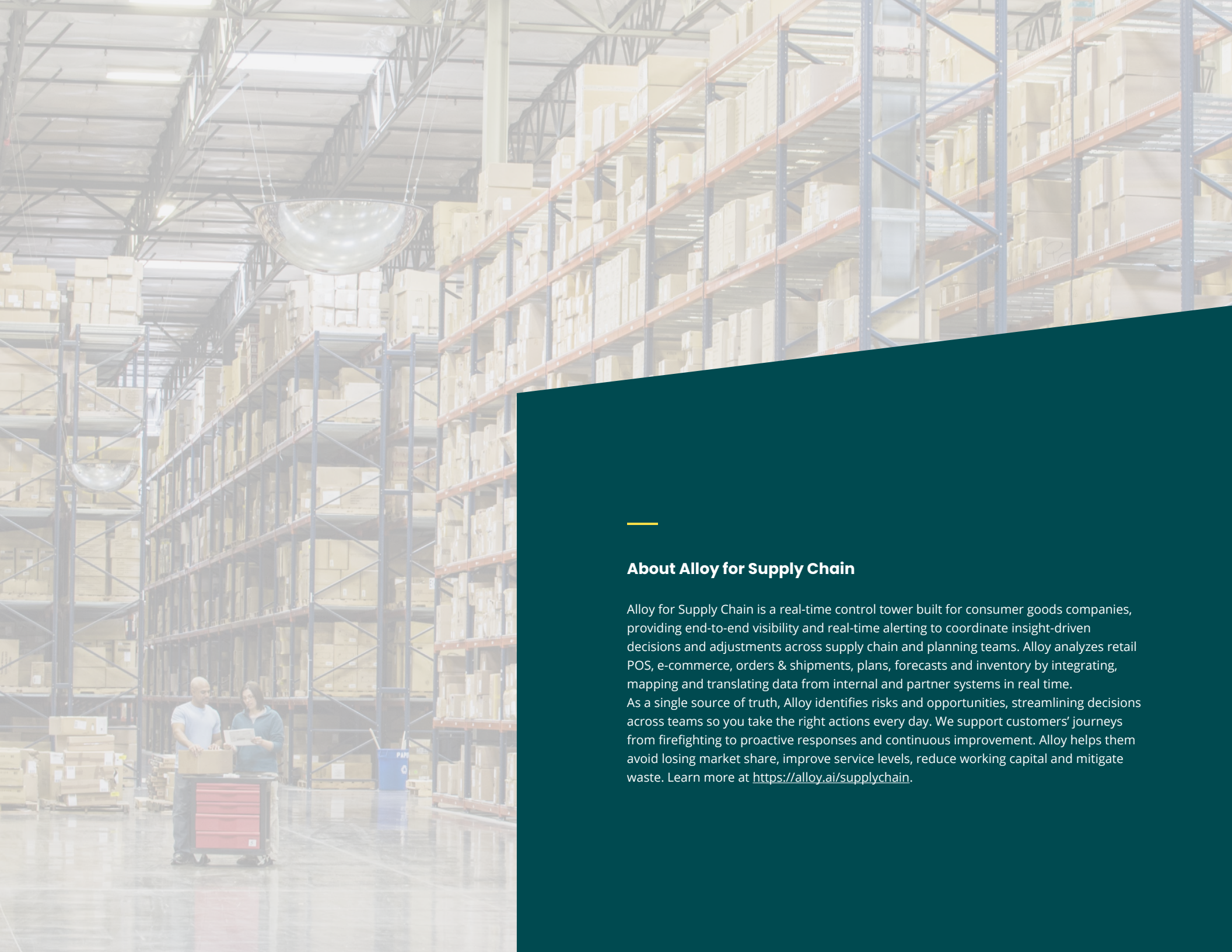
Use POS data in decision-making all the time

Without it, you're relying on customer orders to tell you how much to produce, where to distribute it and when it's needed. The problem is, retailer algorithms are often too slow to react to changing consumer demand, and you pay the price with firefighting, missed orders and out-of-stocks. Instead, use POS analysis to get ahead of changing consumer trends, adjusting plans and distributing inventory across your network so you're ready when the order comes.

These are the best practices that helped global confectioner Ferrero bridge the plan-reality gap when they faced a Nutella demand spike during COVID-19. Their teams could easily peer into its supply chain, see inventory levels at key customers down to the store level and triangulate it with point-of-sale data and forecasts in order to precisely allocate inventory where it was most needed across customers and regions.

Turning to Alloy to connect these workflows enabled Ferrero to minimize out-of-stocks and maintain customer relationships with minimal firefighting – and setup headaches. Alloy automatically manages the data harmonization, supply chain mapping and POS analytics, so the team can get ahead of potential fires.

If the description of *stressed suppliers* sounds familiar, you're not alone. Many consumer goods companies suffer these problems. But our purpose-built platform provides an easy path to a more proactive, relaxed approach, even in an unpredictable world.



About Alloy for Supply Chain

Alloy for Supply Chain is a real-time control tower built for consumer goods companies, providing end-to-end visibility and real-time alerting to coordinate insight-driven decisions and adjustments across supply chain and planning teams. Alloy analyzes retail POS, e-commerce, orders & shipments, plans, forecasts and inventory by integrating, mapping and translating data from internal and partner systems in real time.
As a single source of truth, Alloy identifies risks and opportunities, streamlining decisions across teams so you take the right actions every day. We support customers' journeys from firefighting to proactive responses and continuous improvement. Alloy helps them avoid losing market share, improve service levels, reduce working capital and mitigate waste. Learn more at https://alloy.ai/supplychain.