

Supply Chain Planning Components for Private Label Success

WHITE PAPER

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Executive Summary

Private label manufacturing has evolved into a demanding discipline characterized by high service levels, thin margins, large SKU counts and little room for error. While it does require the utmost efficiency and productivity, for those manufacturers who can master the art of customer collaboration and the science of demand planning, inventory optimization and production planning, private label is a rewarding business (retailers generally see 8%—10% higher margins than for name brands) that continues to grow year over year.

The advantage to retailers with store brands has been well understood for years (differentiation, customer satisfaction, brand loyalty, better margins and value). By now, most consumers have tried private label products and realize that an industry-wide shift has happened. Consumers now perceive that private label products deliver as good or better quality as national brands at more affordable prices. Private label goods are usually priced 20% or more below the market leader, and Private Label Manufacturing Association research reveals that American shoppers consistently save about 35% off their grocery bills by choosing store brands over national brands—chalking up some \$32 billion in annual savings.

From packaged foods in the grocery aisle to fashion-forward apparel labels and furniture, private label products are not only here to stay, they are positioned to prevail. In fact, even Amazon has jumped into private label products in a big way with several private fashion and furniture label brands.

For the manufacturer this opportunity comes with a big challenge: more total SKUs, with lower production volume per SKU, is a recipe for inefficiency, inaccuracy and expensive, reactive decision-making. Maintaining service levels on brands that directly shape a retailer’s core reputation requires the crucial disciplines of demand planning, inventory optimization, manufacturing planning and replenishment planning (perhaps with vendor-managed inventory) and the ability to balance and align supply to fluctuating demand across multiple time horizons.

This paper looks at what private label manufacturers can do to become more effective and organized to effectively compete with, more often than not, larger national brand manufacturers.

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According to the Private Label Manufacturers Association, store brand sales in the U.S. reached above \$150 billion in 2016, including store brand sales of \$35B from large retailers like Costco, Aldi, and Trader Joe's.

How Private Label Levelled the Playing Field

Value-conscious consumers recognize a good deal when they see one, and are happy with the quality of today's store brands. Sales of store brands in the U.S. have set new records across major retail channels. According to the Private Label Manufacturers Association, 2016 store brand sales in the U.S. reached an all-time record with private label dollar volume increasing by 4.4% across mass merchandisers, club channel and dollar-store operators.

The growth of private labels has provided opportunities for manufacturers across a range of industries. Rather than competing directly with larger national brand companies and incurring the related advertising expenses, manufacturers can grow by marketing their products and supply chain expertise to retailers. Businesses who create private label goods act as the manufacturing arm for their retail customers, but success requires that private label manufacturers meet the unique demands this market places on them—demands usually faced by much larger companies.

Four categories of store brand manufacturers:

National brand manufacturers

Use their expertise and excess plant capacity to supply store brands.

Small, quality manufacturers

Specialize in particular product lines, producing store brands almost exclusively. Often owned by corporations that also produce national brands.

Major retailers and wholesalers

Own manufacturing facilities to produce store brand products for themselves.

Regional brand manufacturers

Produce private label products for specific markets.

"In 2016, owned brand private label dollar volume increased 50 basis points in market share to 16.6%."

— Own Brands Now -
March 16, 2017

When Does One Supply Chain Generate as Many Challenges as Ten?

Answer: When it's a private label supply chain where each product is dedicated to only one customer! To some over-burdened managers, private label manufacturing may look like a science project aimed at straining the organization until it cracks under an avalanche of proliferating SKUs and customer-specific product lines. In this environment, every product may be a fast-mover, yet because each one is dedicated to a specific customer and can't be sold to others, product volumes are relatively low while the overall manufacturing load is great. Normal factors affecting service level performance and profitability, from creeping inventory buffers to frequent changeovers to wild swings in the demand signal, are all magnified through the multiple lenses of customer-specific supply chains.

The burden is still on the seller to fill orders as needed, despite limited visibility, short-notice promotions, frequent production runs and expensive expediting. Some private label manufacturers have achieved breakthroughs in supply chain performance by focusing on improvements in three key areas:

- Demand planning
- Inventory optimization
- Production planning and scheduling

Manufacturers have achieved breakthroughs in supply chain performance by focusing on three key improvements: better demand planning, inventory optimization, and production scheduling.

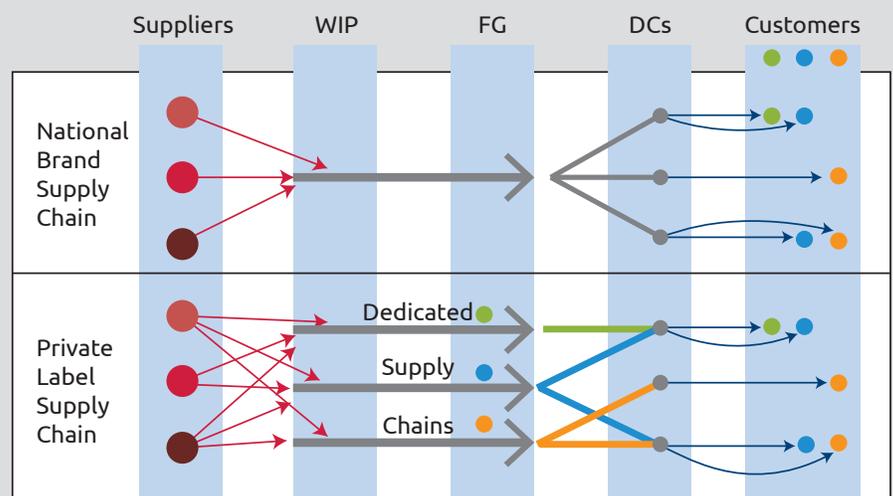


Figure 1: Multiple dedicated products complicate the private label supply chain

The Forecast Calls for Better Demand Planning

When a specific customer's label is affixed on a private label product, it immediately becomes unavailable to any other customer. Your customer-level forecast is the entire forecast! Customer-level forecasting represents a huge improvement opportunity for private label manufacturers, whose goals must include reducing forecast error by focusing relentlessly on customer-specific needs. This requires delivering highly accurate data to drive optimal decisions, but without spending precious supply planner time gathering and tabulating the data.

Instigating a smart, visibility-oriented planning process drives best practices for sales-supply chain communication. Sales and manufacturing teams can collaborate in advance about external events that affect a specific customer, such as in-store promotions, in-season demand swings, and even the anticipated impact of a national brand merchandising program on store brand sales. Powerful demand planning gives everyone weekly visibility to the demand signal and reveals when actual demand exceeds or drops below forecast on an ongoing basis.

Because these dedicated-brand items can only be sold through one channel, every opportunity should be taken to understand better (and find out earlier) the customer's needs and directions, whether anticipating short-lead-time orders or managing inventory for the retailer right at its own distribution centers.

Some private label manufacturers leverage point-of-sale (POS) data provided by the retailer. This early access to the demand signal helps tune plans and, over time, build a better model to drive forecast accuracy. Best-in-class companies also share data with their suppliers to ensure more tightly synchronized communication on production, inventory positions and changes in retail-level demand.

"The mass channel is an ongoing store brands success story. Over the last two years alone, store brands dollar sales in the sector have increased by \$4.7 billion, a gain of +10.5%."

— Private Label Manufacturers Association 2017 Private Label Yearbook

Excess Inventory: No Better Way to Strangle Working Capital

Whether supply chain managers are aware of it or not, inventory buffers are a reaction to limited demand visibility, inefficiency and lack of production flexibility. Many companies are shocked to find out just how much safety stock has accrued across all nodes of the supply chain to protect against stock-outs, mitigate long lead times and react to whipsawing demand signals. When private label manufacturers face the fact that excessive inventory is building up for each specific retailer supply chain, they realize a significant amount of vital working capital has been trapped.

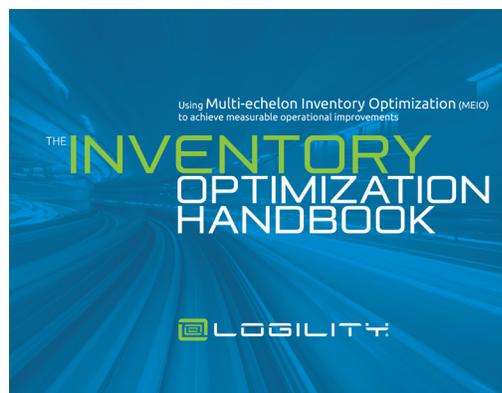
A private label manufacturer can have ten inventory optimization disasters occurring at once. It is crucial to apply a powerful end-to-end inventory optimization solution to each dedicated inventory footprint.

While supply chain splintering and product differentiation may make it difficult, Multi-echelon Inventory Optimization (MEIO) can uncover many opportunities to reposition inventory, postpone customization, pool finished goods, aggregate demand streams and mitigate the challenges of demand and supply variability. Inventory waiting for delivery at the end of the network can be minimized.

Running multi-echelon “what-if” scenarios can reveal how to adjust the size of inventory buffers across all the stages and locations of the supply chain to minimize overall investment in safety stock required to meet any desired service level.

An inefficient supply chain saps profitability and soaks up working capital. MEIO provides specialized functionality not included in enterprise resource planning (ERP) and advanced planning and scheduling (APS) systems. It can model the entire supply chain and apply sophisticated mathematical algorithms to tune the network and ensure optimal cost efficiency.

For more information about using MEIO to achieve measurable operational improvements, download the Inventory Optimization Handbook.



“Store brands sales climbed in the Mass channel in 2016, as dollars and units grew four times the rate of national brands.”

— Private Label Manufacturers Association
2017 Private Label Yearbook

Finally, Your Plan is Perfect... Now Change It

It's a truism in today's manufacturing world that you are only as good as your latest plan.

Production planning is more challenging for a PLM than for a like-sized brand manufacturer because satisfying the splintered demand of specific retailers requires smaller runs and more frequent changeovers. The private label world has become all about differentiated products that produce a unique value and brand equity for each retailer. This greater demand for differentiation reduces opportunities for postponement—work-in-process is often as differentiated as finished goods, with unique recipes, components and bills of materials. A new style of aggressive make-to-stock manufacturing demands that the manufacturer be agile in keeping multiple customer-specific product plans flexible and relevant to changing market needs.

The fact is that you simply have to be good at planning and producing a large number of SKUs, managing short runs and many changeovers. You must model the capacity, capability and throughput of facilities in order to optimize production planning and sequencing while minimizing manufacturing costs. This includes every workstation and stage of production, all the constraints and throughputs of each stage, and workforce requirements.

Planning a private label product portfolio quickly surpasses the capabilities of typical ERP systems. While ERP systems focus on materials, a state-of-the-art APS solution generates the actual schedule down to minutes to consume materials, minimize constraints and produce products efficiently. An APS solution must deliver granularity, precision and detailed analysis, while simultaneously providing a big-picture view of the business. It models the manufacturing process, compares throughputs of different lines, as well as capacities, levels of efficiency and other variables, and calculates the sequence of manufacturing that requires the least changeover time to produce a required mix of products within a certain timeframe.

This approach builds confidence that the team is attaining the highest-possible performance for all manufacturing runs, as well as freeing up extra production capacity, and creating more flexibility to respond to real-time events.

The private label world has become all about differentiated products that produce a unique value and brand equity for each retailer.

Sonoco Products Company

PACKAGES UP AN EFFECTIVE S&OP PROCESS

Founded in 1899, Sonoco is a \$5 billion global manufacturer of industrial and consumer products and provider of packaging and packaging services, with more than 330 operations in 35 countries, serving customers in close to 85 nations.

Complex Networks

Sonoco's networks are more complex than a typical manufacturing company. The paper-based supply chains (Sonoco's largest) are vertically integrated with a network of paper machines feeding many converted product plants. Production mills produce paper using multiple technologies, which limits flexibility between production locations. This paper is the beginning stage for the products that satisfy several internal and external sources of demand.

Historically, with a standard two-week lead time on any order, Sonoco struggled with high inventory levels, and wanted a new way to treat unique types of demand differently and more effectively. Sonoco began the improvement process by categorizing its products by A-B-C classification: "A" represents high volume and routine products, made-to-stock with short delivery time, "B" is intermediate volume products, make-to-order with longer lead time and "C" represents products with low and lumpy demand.

New S&OP Process

To gain greater visibility of the demand streams, the next step involved instituting a formal company sales and operations planning (S&OP) process. The difficulty was that the data for the S&OP process required a lot of manual effort to pull, and had a very limited planning horizon for future visibility of demand and supply. The information came mostly from the company's sales organization and was based on consumption data and historical patterns—some numbers conservative, some optimistic. Once the company realized that it needed better support in place for the S&OP process, it broadened the search, seeking a total supply chain planning solution, and chose Logility Voyager Solutions™. The rapid implementation took two to three months for demand management, and Sonoco began seeing results immediately.

The Bottom Line:

- Gained greater visibility for a new improved S&OP process
- Reduced manual effort for the S&OP process by 90%, from 10 days of effort to six hours
- Created a rough cut capacity plan for production analysis, making the S&OP process even more effective
- Reduced forecast error rate by 50%

"Since implementing Logility Voyager Solutions, Sonoco has been able to hit set inventory targets consistently, and now has a good handle on inventory management."

Director, Supply Chain and Operating Excellence

Conclusion: Power Tools, not Manual Methods, are Key to Private Label Manufacturing Success

There is little room for error in private label manufacturing. To be successful, it takes a clear understanding of how to provide outstanding service levels for extremely demanding customers in a unique environment of low margins, proliferating SKUs, and multi-threaded supply chains. Leading private label manufacturers have met these challenges by implementing best practices for demand management, inventory optimization and agile production planning.

A best-in-class integrated software suite can provide the powerful tools necessary to reduce forecast error, optimize inventory levels, improve perfect order rates, boost production flexibility and instill collaboration between sales and operations, as well as between retailer and manufacturer. Logility Voyager Solutions provide a full range of integrated supply chain planning and optimization capabilities that help private label manufacturers stay on top of one of the fastest growing and most rewarding markets in business today.

About Logility

With more than 1,250 customers worldwide, Logility is a leading provider of collaborative supply chain optimization and advanced retail planning solutions that help small, medium, large, and Fortune 500 companies realize substantial bottom-line results in record time.

Logility Voyager Solutions is a complete supply chain management and retail optimization solution that features an advanced analytics architecture and provides supply chain visibility; demand, inventory and replenishment planning; sales and operations planning (S&OP); integrated business planning (IBP); supply and inventory optimization; manufacturing planning and scheduling; retail merchandise planning, assortment and allocation; and transportation planning and management.

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