

Supply Chain Leadership in the Eyes of Consumers

Are we solving the right Supply Chain problem? Supply chain teams engage in solving a lot of customer problems, some of which pertain to major customers with significant revenue streams. It's important that we first understand the actual customer problem, as experienced by the customer, highlights **Dr. Rakesh Sinha, Founder & CEO, Reflexive Supply Chain Solutions**. He emphasized this by giving an apt connotation that a sailing ship is most comfortable in steady sea waters. However, if it wants to reach the shore, it must embrace discomfort and pass through a bit of turbulence before reaching the destination and this is where it is pertinent to view Supply Chain Leadership from the consumers' eyes...

THE question of Supply Chain Leadership has been debated for a long time. However, the concept remains ambiguous. How do we define and measure it? What should be the parameters? Should we benchmark the relevant parameters across various companies in an industry? How do we define an industry in the first place? I have been thinking about it for quite some time. In my opinion, supply chains exist to meet the needs of their

consumers, hence we must define leadership from their viewpoint. How are the brand owners and channels serving their primary needs? Who stands out as the leader in their eyes?

If we look at consumer goods, for example, the first and foremost parameter for consumers is the sheer availability of the product across channels. If a consumer goes to a store, be it a supermarket, hypermarket, or a kirana shop selling the product, will she find it on the shelf?

We know that stockout on shelves is a

significant reason for brand switch. If we want to build consumer loyalty through repeat purchases, a well-run supply chain ensuring consistent availability will surely help. The same holds true for new product launches, where consistent availability can help trials and contribute to the launch success. Many launches have suffered significantly on account of poor availability, either due to a demand surge or plain inefficiency of the supply chain.

If the consumer wants to buy it online, is it listed in the catalogue of her



Dr. Rakesh Sinha

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preferred e-commerce partner? If listed, is it available for immediate purchase or is it stocked out? All of us have experienced our favourite products getting stocked out often. What does it say about the brand's supply chain? The same logic applies to the Quick Commerce channel as well, which is rapidly expanding across geographies and product offerings.

If a brand manages wide availability across stores and sites, coupled with consistent availability, its supply chain is seen as superior by the consumers. Consumers would also judge the channels on the same parameter.

Living up to the Freshness Quotient

The next important parameter in the eyes of consumers is the freshness of the product at the time of purchase. If you stand in the aisle of consumer goods in a self-service outlet, you will notice about half the shoppers turning the pack to check when it was manufactured. What is the remaining shelf life? If the consumer is considering alternate brands, she is likely to go with the one which is freshest.

The parameter of freshness is critical for products with a short shelf life, such as milk, bread, fruits, and vegetables. If their supply chain processes are not designed to ensure freshness on retail shelves, the brand may have to either collect the leftovers or pay for the write-offs.

The freshness parameter is gaining traction even for products with long shelf life as consumers feel that fresher is better. In case of durables, they feel newer products are technically and aesthetically better. We have seen this phenomenon in cars where 2023 model sells at a significant discount to the 2024 model. TV, mobile and laptop brands strive to ensure that their products are fresher than their competitors.

MOMENT OF TRUTH

Apart from availability and freshness, consumers care a lot for the product quality, which manifests at different times as a moment of truth. The first moment of truth is when the consumer interacts with the physical product for the first time, either on the retail shelf, or on opening the packet delivered at home. How is the outer packaging? Is it crumpled or dented? Is the printing clear or smudged? Can she read the grammage,

price and date of manufacturing clearly? Is the brand trying to display it properly or hide it by embossing instead of printing?

The second moment of truth is when the consumer uses the product. If it's a soap, how is the lather, mushiness, and residue on the bathroom floor? In case of food products, how is the taste? The first usage creates perception of quality and imprints the effectiveness of the extended supply chain in her mind.

The third moment of truth is the post usage experience. Does the fragrance last for a long time? How does the skin feel? In case of food items, after-taste is an important parameter of quality in her mind.

KEEPING IT AFFORDABLE

Apart from availability, freshness, and quality, supply chains do play a major role in affordability of the product. Can she afford delivery fee for same day delivery or a 10 minute delivery? How does the product price compare with the other alternatives she has in mind? Channels can make the products affordable through a responsive and effective supply chain design, and through loyalty programs such as Amazon Prime or Zepto Pass. What's important for the consumer is that she can buy across various channels at an affordable price.

GAUGING THE 'PRIDE OF OWNERSHIP'

The last in the list of parameters for consumers is the pride of ownership. Does she feel proud to tell her friends, relatives, and acquaintances that she is using this particular brand. The pride of ownership is governed by what the brand stands for. How does it affect the environment? Is it good for the society? Does the company follow sustainable practices in sourcing, manufacturing, and distribution?

Once a brand establishes pride of ownership with consumers, it benefits by word-of-mouth, which is useful in expanding its user base and is much more cost effective than mass media to get new triers in its fold. All the five parameters listed above, viz. availability, freshness, quality, affordability, and pride of ownership are important in the eyes of consumers.

These parameters are also influenced significantly by the supply chain design, policies, processes, and practices. Companies scoring well on these counts are seen by consumers as real supply chain leaders. Brands will do well to take cognizance of these vital parameters and set up a process of ongoing improvement to excel on these.

STEP BY STEP APPROACH TO EXCELLENCE

If a company wants to attain Supply Chain Leadership in its sphere of operations, what should it do to excel on these five parameters? Some companies take one parameter at a time, assess where they are vis-à-vis their competitors, and work out an action plan for improvement. Such an approach is unlikely to result in excellence across the spectrum of parameters, as improvement in one parameter often leads to deterioration in others.

Supply chains are complex systems with many inter-dependencies amongst its components. Moreover, there is inherent variability in many processes, which can't be wished away. If we go back to Systems Theory, a complex system with inter-dependencies and inherent variability must be optimised as a whole, rather than improving its sub-systems, one at a time.

Supply Chain Leadership requires that we look at the fundamentals of supply chain in terms of its basic design. Is it designed for low cost operations, fast response, or continuous flow? These design options have a significant impact on how the supply chain will perform in the eyes of consumers.

I would recommend carrying out an initial assessment of your supply chain design and tweak it, if required, to facilitate continuous flow. It also means challenging the current policies, processes, and practices for flow improvement. Once the design is ready to support flow, further improvement requires working on the basic supply chain capabilities, viz. demand sensing, flexibility, and responsiveness. These capabilities can be improved significantly, no matter what the current state is. The improvement is endless as we can never arrive at the final destination.

Since we need to synchronize supplies

We know that stockout on shelves is a significant reason for brand switch. If we want to build consumer loyalty through repeat purchases, a well-run supply chain ensuring consistent availability will surely help. The same holds true for new product launches, where consistent availability can help trials and contribute to the launch success. Many launches have suffered significantly on account of poor availability, either due to a demand surge or plain inefficiency of the supply chain.

with demand, the starting point is an estimation of demand over the horizon of the Supply Lead Time. This lead time is different for the last mile customer service, production of finished goods, and procurement of input materials. Accordingly, we need demand estimate for these different time horizons.

There are two important design parameters if we want to excel in this area. The first parameter defines the granularity at which demand should be estimated, and the second parameter defines the frequency at which it should be refreshed as new data comes in.

Granularity of demand estimate is defined along the three dimensions of product, geography, and time. Should it be at the category level, product group level, brand level, or SKU level? Should it be at the national, regional, State, district, PIN code or distributor level? Should it be in monthly, weekly, or daily buckets? Supply Chain Leadership requires moving to more granular levels, so that the emerging demand patterns can be deciphered better. Some supply chain leaders have already moved to SKU-distributor-day level granularity for traditional channels and SKU-PIN code-day level granularity for direct sales to consumers through their website.

Frequency of refreshing demand estimate is important for supply responsiveness. It determines how quickly we notice a shift in demand pattern and incorporate it in our supply plans. Most traditional companies operate at monthly refresh of demand estimate, though some have now moved to weekly refresh. Since new demand data comes in

daily, Supply Chain Leadership requires that we refresh the granular demand estimates also daily. Since estimates are often based on Bayesian model, improving the frequency of refresh also leads to more accurate predictions.

Granular level demand estimate with daily refresh is at the heart of Demand Sensing, which is becoming a must for running effective supply chains and moving them to the leadership level.

The second capability required for Supply Chain Leadership is the flexibility in operations. Is our distribution network flexible? How flexible are our production lines and schedules? How flexible are our vendors for lead time and order quantity? Companies aiming for Supply Chain Leadership have moved significantly on making their entire end-to-end operations flexible and they have put it on a continuous improvement path.

The third capability in Supply Chain Leadership is responsiveness. If there is a shift in consumer demand pattern at the granular level, how soon can the entire supply chain respond? How soon do companies sense this additional unusual demand and respond with higher supplies? Full response would, however, include expediting additional supplies to the affected area, modifying the production schedule to prioritize these items, and expediting the vendor delivery schedules for additional supply of the requisite input materials.

Where are we on these capabilities and what sort of disruptions can be managed by the supply chain without sacrificing product availability? We know

how companies suffered in Covid-19, which was a black swan event. Those with good demand sensing capabilities and a flexible, responsive back-end operations stood way above the rest in terms of their consistent product availability.

DRIVING COLLABORATIVE SPIRITS

Supply Chain Leadership is not a cakewalk. It needs consumer focus, commitment, and capability development to be loved by the consumers and gain respect in their eyes. Supply Chain Leadership requires a razor-sharp focus on the key consumer needs of availability, freshness, quality, affordability, and pride of ownership. It also requires continuous development of key supply chain capabilities of demand sensing, flexibility, and responsiveness.

This brings us to the important point. Can a company improve just its own operations and become the leader? It's quite unlikely as effectiveness of the extended supply chain also depends on how the partners perform. We must work on developing an effective ecosystem comprising various partners such as vendors, distributors, transporters, agents, and channel partners for a coordinated response. Such an ecosystem is built on transparency and trust, with clearly understood roles and responsibilities for harmonious relations. It also requires someone orchestrating the overall response to create the symphony.