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“SUPPLY CHAIN MANAGEMENT: THE NEW BATTLEFIELD”

BY JEFF O’HEIR

The CE manufacturer and retailer with the best supply chain management strategy will win the war, or at least emerge from each fiscal quarter with the least wounds.

“The new battleground is the supply chain,” said Kurt Cavano, CEO of TradeCard, a New York City-based provider of supply chain financial services. “And the battle is often won or lost before the product even hits the showroom floor.”

Cavano was just one of many of the industry’s top vendors, retailers and analysts to speak during the two-day Consumer Electronics Supply Chain Academy conference held at CES. Their messages, however, were similar: The challenges and dynamics that permeate today’s marketplace—plunging margins, more sophisticated and complex products, customer demand for just-in-time products and services, the rise in ordering and selling product over the Internet, global sourcing, faster lifecycles—has increased the importance of supply chain management strategies for any company with a stake in the industry.

Manufacturers and dealers of all sizes, however, can overcome those challenges with the right technology, leadership and time-proven practices based on a solid foundation of common sense, conference speakers pointed out.

“Supply chain management will help with the problems



TradeCard’s Kurt Cavano said the retail battle is often won or lost before product even hits the showroom floor.

because it creates common standards, reduces friction and breaks down borders,” said Devendra Mishra, program director of the Consumer Electronics Supply Chain Academy. “That translates to greater productivity, stronger industry leadership and more innovative products.”

Supply chain management strategies today must extend far beyond the manufacturing, procurement and shipment of products. They have to embrace the creation and delivery of full value-added solutions through “collaborative innovation,” stressed George Bailey, IBM’s general manager for electronics industry. “It’s all about collaborative innovation. It’s about having the right products, people, services and software.”

CE product manufacturers, in particular, have to do a better job at collaborative innovation and supply chain management initiatives, he and others said. Most of those manufacturers, with few exceptions, generate margins of two to three percent, the lowest average among most major industries. “That’s not a sustainable business model,” Bailey said. In comparison, semiconductor suppliers on average generated operating margins of about 23 percent in 2005, retailers delivered about six percent, and PC manufacturers came in at five percent.

Apple, Samsung and Bang & Olufsen stand out as exceptions among CE manufacturers, having delivered strong profits, sales and customer satisfaction over the last three

years, Bailey noted. The common thread of their success is a focus on a fat-free and efficient supply chain. But they have deployed other strategies associated with Bailey's definition of innovation as the delivery vehicle of great value.

Apple, which generated retail margin of about 17 percent last year, achieved success with its iPod and other products not by developing new types of products, but by developing new business models surrounding them. Apple and Bang & Olufsen, Bailey said, have also created successful retail outlets with a heavy customer focus, strong marketing campaigns



Despite the challenges, supply chain management generates tremendous opportunities, says Jim Bottoms, chairman of Understanding & Solutions.

and a direct channel that has produced a more predictable and manageable supply chain. "Apple made an investment in its direct channel," said Sean Lafferty, IBM's growth and innovation leader, global electronics industry. "The margin of the retail channel increases because they don't have to discount."

Among CE manufacturers, Bang & Olufsen scored one of the highest EBIT margins in 2005 with 11 percent, while Samsung followed with a strong 10 percent.

"Bang and Olufsen is another success because of its focus on a direct channel and the stand-

alone stores that are very focused on the customer. They know what the customer wants and they have a tightly-controlled supply chain," Lafferty said. "Samsung doesn't miss launches or suffer from inventory problems."

Going forward, supply chain management efficiencies will be more important as online sales continue to outpace offline sales, which they currently do by about three times. While online sales will continue to create greater sales opportunities for manufacturers and retailers, they will also present more challenges, such as faster delivery demands and the need for more sophisticated logistics systems tightly tied to a greater variety of supply partners.

Online opportunities will also grow as innovative shopping methods such as the Second Life virtual community, used by companies like Circuit City (*see story, p. 108*), gain more traction. "That will dramatically change the way people shop and buy," Lafferty said, adding that virtual platforms will impact the supply change by intensifying the demand on manufacturers and retailers to ship and track more individual units.

Supply chain managers at every level in the industry,

however, will also be able to leverage those new technologies to better control inventory and other links in the chain, Lafferty said, noting that there are many software solutions available today that strengthen the supply chain and full collaboration process.

Manufacturing and retail executives reported that, when executed properly, collaboration and partnering can lead to greater access to markets, customers, skills and products; higher quality service and customer satisfaction; reduced costs; more revenue; a deeper focus on specializations; and faster time to market, Bailey said.

Of course, achieving those benefits is not always easy.

Ron Cuthbertson, senior vice president of supply chain and inventory management at Circuit City, found this over the years, as he worked different jobs for CE and appliance retailers and distributors to explore what makes and breaks the supply chain. Despite the different paths that journey took him down, the major areas that supply chain management impacts remains constant: product replenishment, promotional volatility, demand forecasting, security and shrinkage, returns and inventory management.

"As I went down the journey, it became apparent that no one part of the organization owned the process," Cuthbertson said. "To think we're not all bound together is foolish. We have to look at the pieces holistically."

One of the key outcomes of a well-executed supply chain strategy is faster inventory turns, which helps cut costs. "The only inventory you ever want to see at rest is the demo products on the show floor," Cuthbertson said. "It must always be moving. I shudder that we even use the word 'weeks' when discussing inventory."

To achieve that, key managers must take ownership of supply chain initiatives, and collaborate closely with each other and their partners. For example, tight communications between a manufacturer's R&D division and its retail partners can help produce faster and shorter product life cycles, which can help decrease inventory levels. "We have to take the fat out of all the pipe," Cuthbertson said.

The deployment of supply chain initiatives helped Circuit City improve in-stock levels, increase value-added service offerings, reduce vendors' costs of doing business with Circuit City, respond more rapidly to demand trends for better forecasting, increase flexibility with vendors and suppliers, and improve system and data transparency for timely identification and closure of performance gaps, Cuthbertson said.

"The collaborative management of inventory is the only way we're going to improve our pipeline," he said. "We must eliminate all non value-added costs."

Michael Noblit, vice president of North America operations at Samsung Electronics agreed, saying the reduction of inventory is a key step and can be achieved through efficient distribution. "Logistics alone can make or break a company," Noblit said, adding that Samsung is driving more products through third-party distributors. "You have to have an envi-

ronment where data is synched up across the board to eventually provide a seamless experience for the customer.”

Strong point-of-sale data collection and monitoring is also helping companies maintain minimum inventory levels and ensuring that the right product is in the right place and the right position, he said.

Conference participants pointed out other areas that are helping to improve supply chain efficiencies. Paul Brody, associate partner with IBM's business consulting services, said more retailers and OEMS are now thinking of services as part of the supply chain and, for example, using those initiatives to ensure that all the right accessories and installation services accompany the sale of a flat panel TV.

Supply chain data, in other words, is helping retailers pinpoint the types of products and services that make them unique “so we're not all fighting for the same piece of the market,” he said. More companies are also getting back to business basics, by focusing on such areas as statistical and collaborative forecasting, which can lead to higher reliability in the supply chain. “Forecast accuracy has a tremendous impact on downstream supply,” he said. “What we're worrying about is how to make the supply chain more predict-



IBM's George Bailey stresses the importance of “collaborative innovation” to improve supply chain efficiencies.

able.”

That becomes more difficult as the range of CE products (from tiny MP3 players to sophisticated home control systems to giant flat panel TVs) and services continue to grow, said Jim Bottoms, founder and chairman of Understanding & Solutions, a consulting firm. The “collision” of national, regional, local and specialty retailers scrambling to achieve the same goals, and supply chain management can add to even more confusion, he said.

“There are more supplies available, but a push for leaner stock. Product lifecycles are getting shorter due to new feature and fashion trends. Products are getting more complex and need connectivity. Returns

are a big issue,” Bottoms said.

But for all of the challenges supply chain management issues present, conference participants agreed there are even more opportunities.

“Retailers are becoming far more sophisticated in gathering information on consumer needs and products,” he said. “The supply chain in the U.S. is more developed than in other areas. Manufacturers are much closer to the retailer and, in turn, the retailer is much closer to the customer.”

