



ECR directions

Supply Chain Management

By Mr. Polpiya Thitivesa

November 4, 2002

The following material has been developed by Polpiya Thitivesa, Nestle for an oral presentation and discussion. Without the accompanying oral comments, the text is incomplete as a record of the presentation. The information presented is intended only for the discussion or entity to which it is addressed and may contain confidential and/or privileged material. Any review, reproduction, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited.



Nestlé



Scope of the Supply Chain & Logistics Management

This is the a FMCG industry common approach in managing Supply Chain and Logistics between factories and customers. Scope of this session will focus on the foundation and for academic purposes only.

Although, it is not suggested that there is only one way to perform Supply Chain & Logistics management, the approach outlined here is supported by the ECR.





Agenda

- Supply Chain & Logistics Management Overview
- Update 5th ECR Conference Singapore
- Nestle way of managing Supply Chain & Logistics
- Knowledge Sharing (Q & A)





Supply Chain & Logistics Management Overview

The following material has been developed by Polpiya Thilivesa, Nestlé for an oral presentation and discussion. Without the accompanying oral comments, the text is incomplete as a record of the presentation. The information presented is intended only for the discussion or entity to which it is addressed and may contain confidential and/or privileged material. Any review, reproduction, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited. c

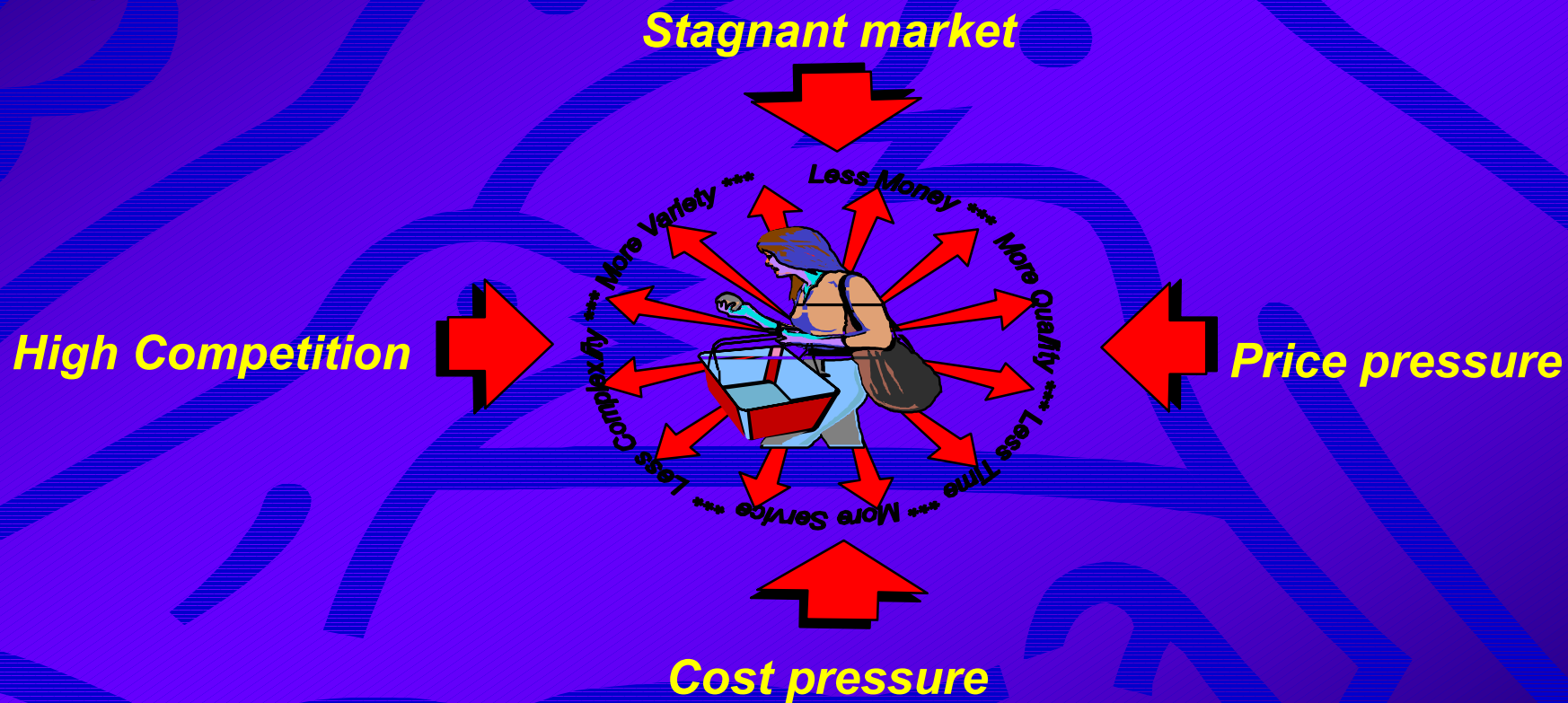


Nestlé



FMCG Industry Challenge

The prevailing forces of change with an increasing level of consumer sophistication ...



...has led to the development of ECR





Efficient Consumer Response (ECR)

***"WORKING
TOGETHER TO
FULFIL CONSUMER
WISHES BETTER,
FASTER AND AT
LESS COST"***



***"GCI"
Global
Commercial
Initiative***

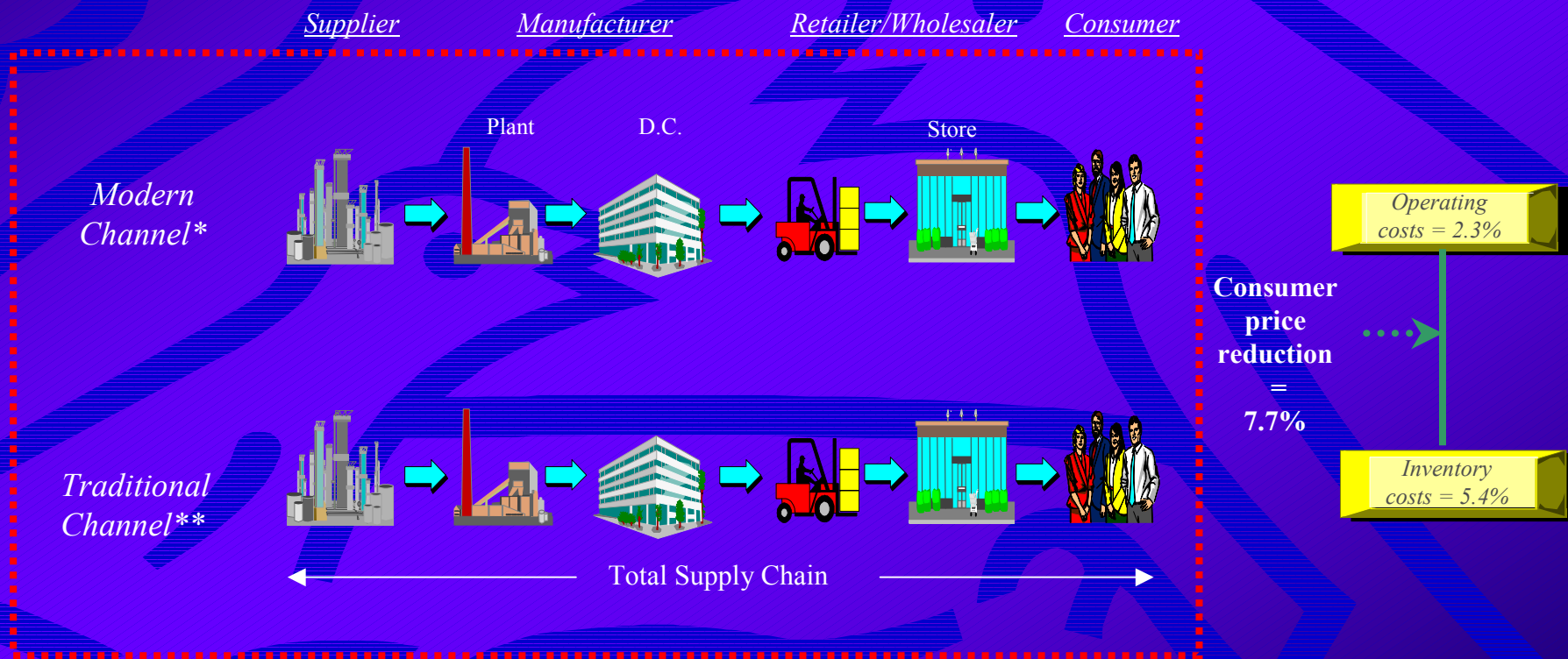




Supply Chain & Logistics Management

Benefits

Through the adoption of ECR in Thailand for all channels, it is expected to reduce consumer price by 7.7%, which is equivalent to **Baht 38 billion** saving across the industry



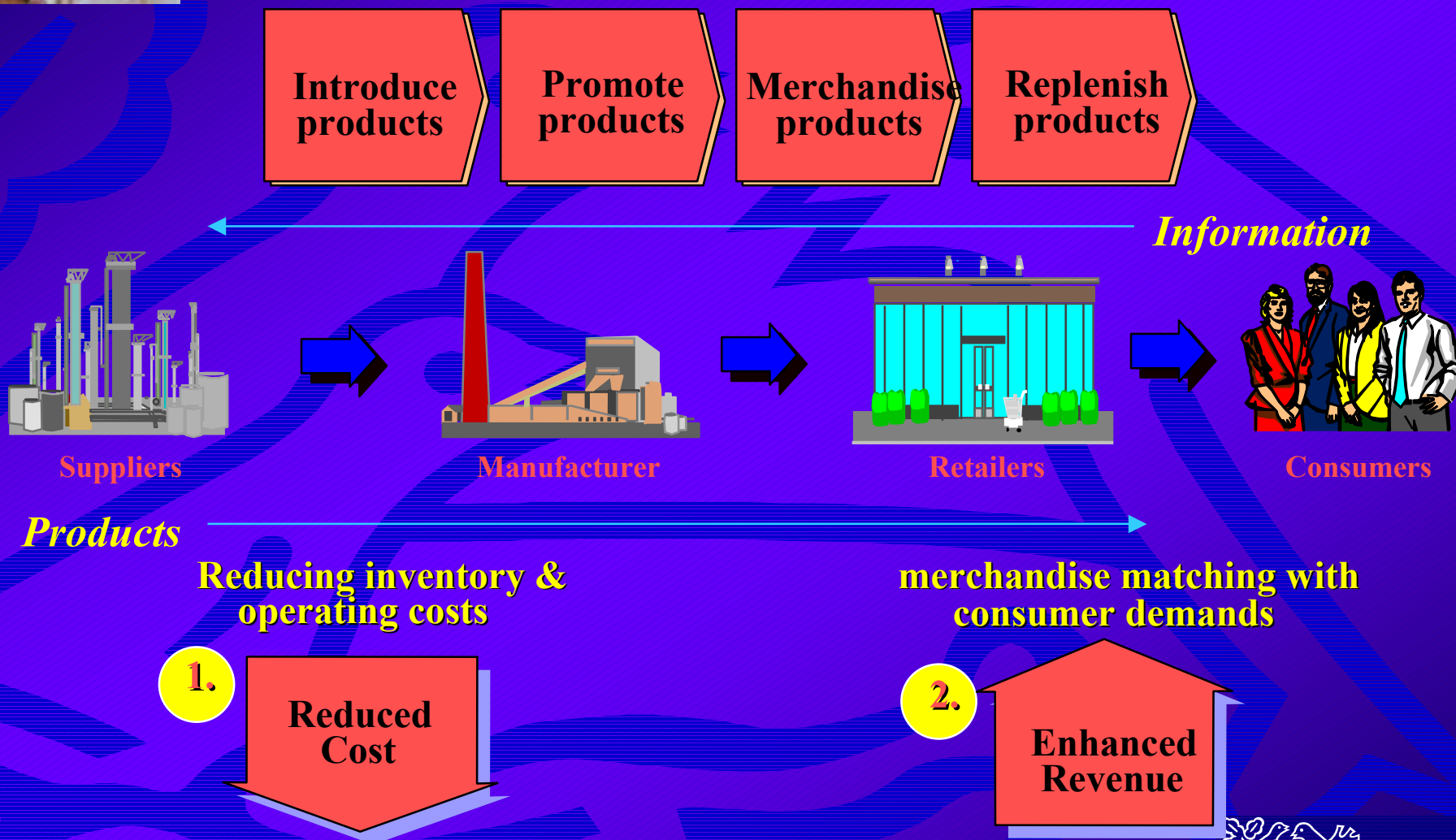
*Modern Trade: Supermarket chains, hypermarket chains, convenience stores,

**Traditional: Mom & Pop Store, independent Supermarket





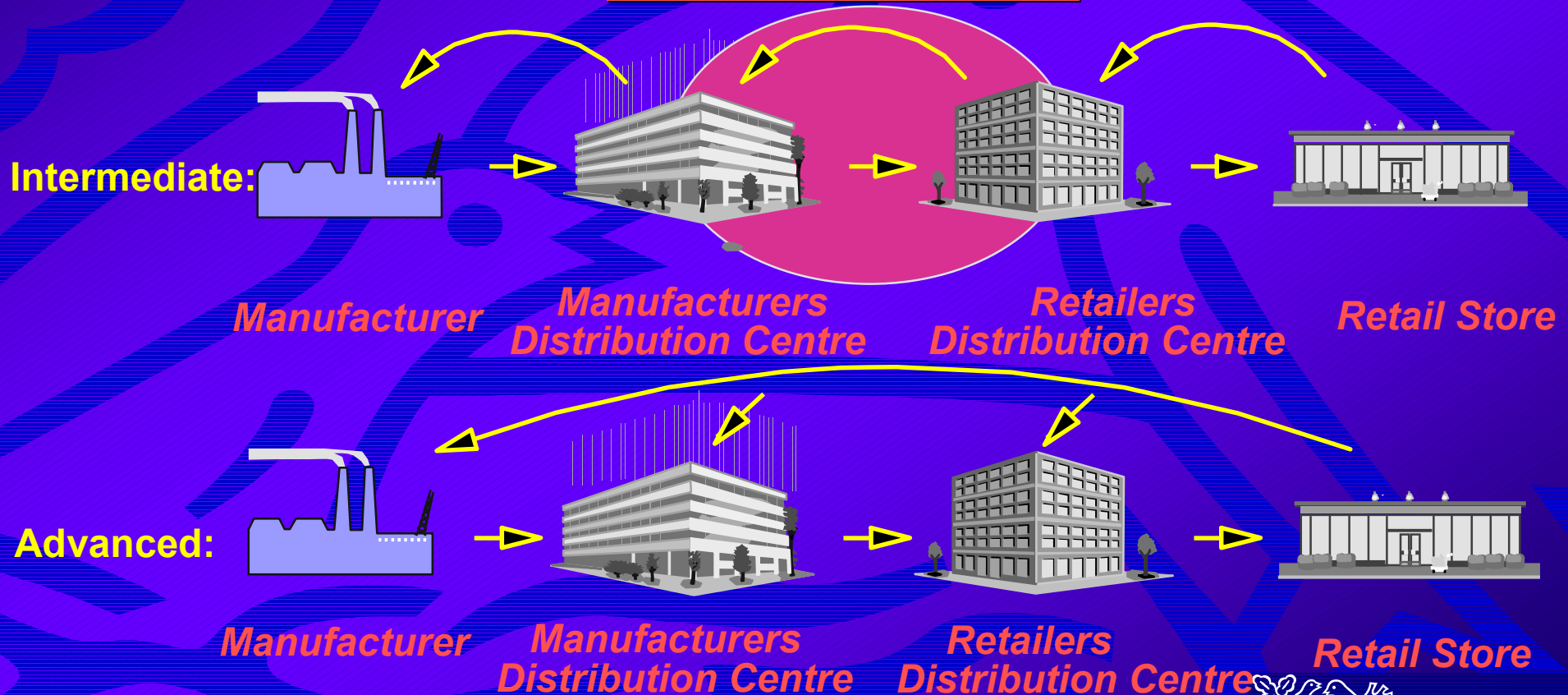
Efficient Consumer Response (ECR) Original Objectives & Approaches





Efficient Consumer Response (ECR) Challenge on Conventional Replenishment

Which can in turn drive Continuous Replenishment, which is the process of using consumer sales data, combined with joint forecasting for promotions, launches and re-launches, to drive the replenishment of product from the manufacturer to the retailer



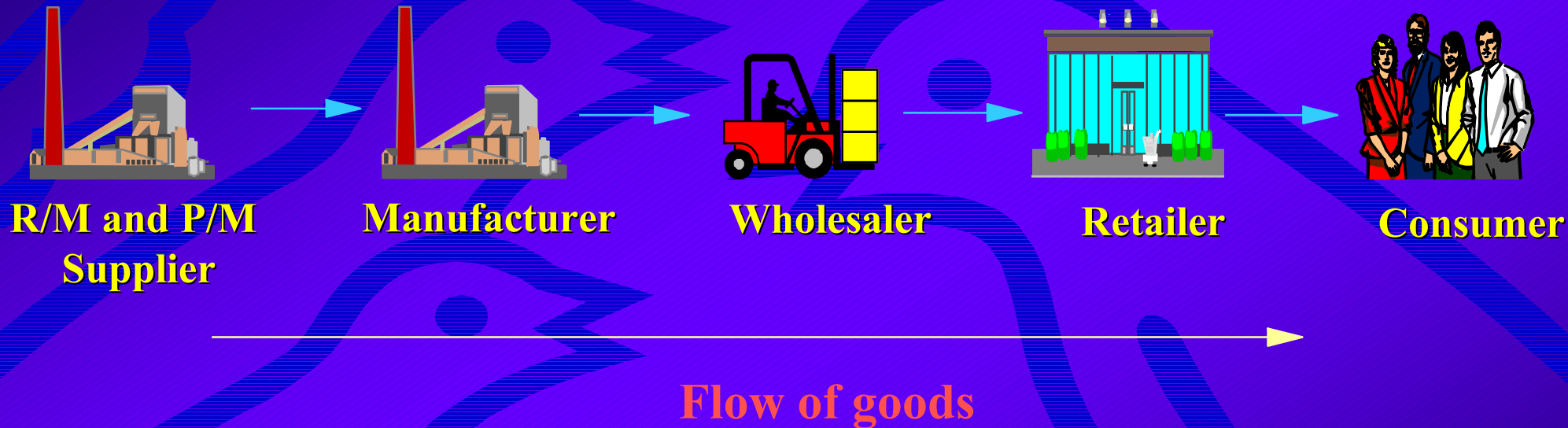
The following material has been developed by Polpiya Thitvesa, Nestlé, for an oral presentation and discussion. Without the accompanying oral comments, the text is incomplete as a record of the presentation. The information presented is intended only for the discussion or entity to which it is addressed and may contain confidential and/or privileged material. Any review, reproduction, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited.





Supply Chain & Logistics Management

What is it?



... is concerned with the strategy and management of the movement and storage of materials and products from suppliers, through the Manufacture, firms' distribution systems to retail outlets and customers





Supply Chain & Logistics Management

What wrong?

A Constrained Supply Chain

- Capital intensive plant
- Seasonal raw materials
- Supplier capacity constraints
- Limited labour flexibility
- Large batch sizes
- Trade capacity constraints

Demanding Market Place

- Dominant competition
- Consumer and trade promotions
- Short product life cycles
- Price changes
- Customer forward buying & diversion

Potential for
poor use of
resources

High inventory levels
Idle and imprisoned capacity
High logistics cost
Poor service



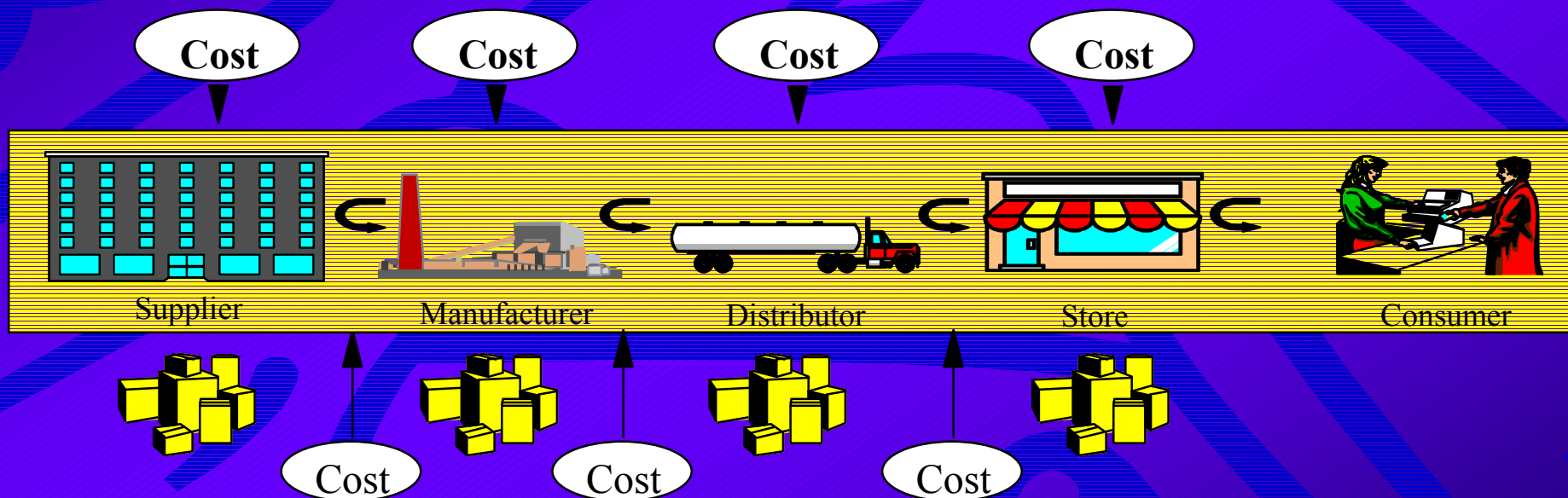


Supply Chain & Logistics Management

What are the Challenges in FMCG industry?

Minimise Total Cost (while maintaining or improving service)

- Costs can be minimised by reducing the time that product spends in the supply chain and by increasing the efficiency with which resources are utilised



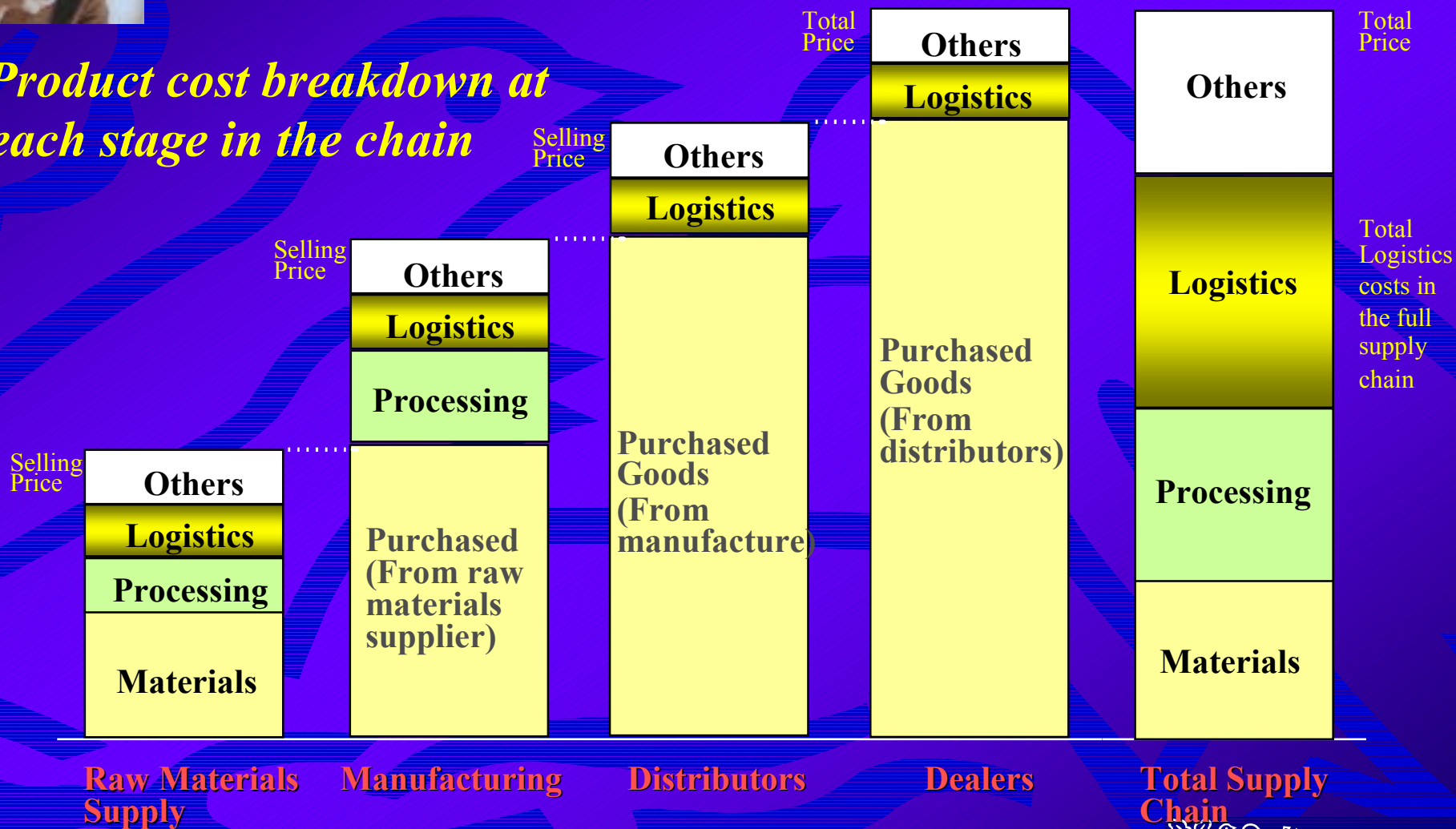
It is now recognised that optimisation of a single part of the supply chain may lead to a greater total cost



Supply Chain & Logistics Management

Shifting of Supply chain cost to the end consumer

Product cost breakdown at each stage in the chain



Raw Materials Supply

Manufacturing

Distributors

Dealers

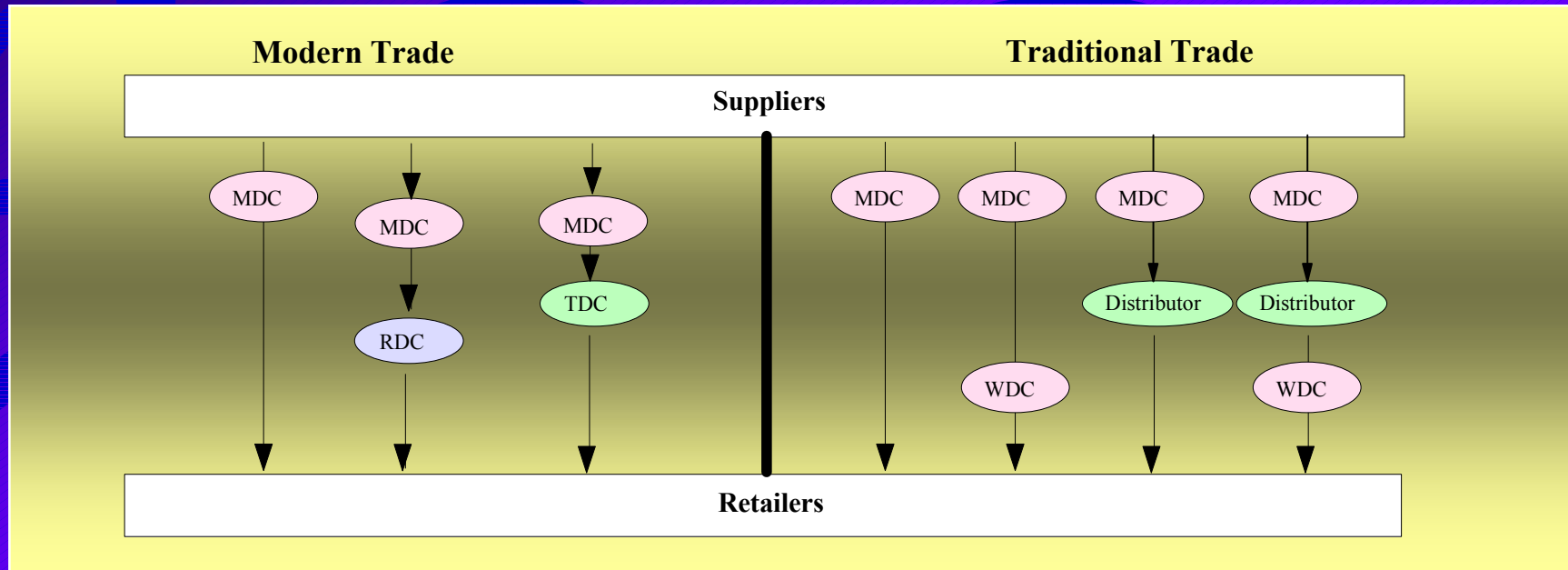
Total Supply Chain





Supply Chain & Logistics Management

Complexity of FMCG Logistics flow in Thailand



MDC = Manufacturer's distribution centre

RDC = Retailer's distribution centre

WDC = Wholesale distribution centre

TDC = Third party distribution centre

Distributor = Exclusive distributor carrying limited range





Supply Chain & Logistics Management

Why FMCG needs to have inventory?

Inventory is required when a process and its inputs cannot directly satisfy the requirement placed on it



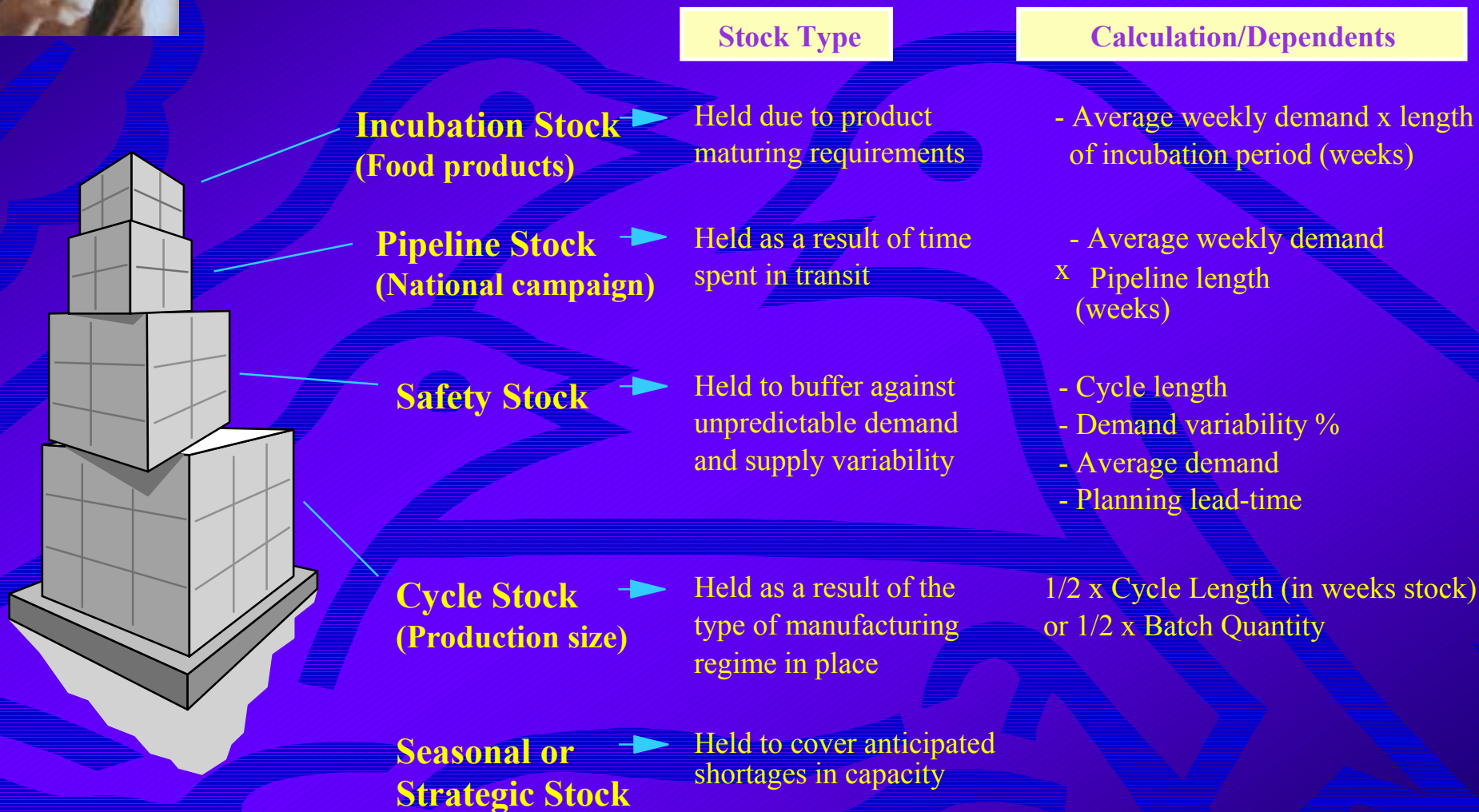
- Big batches/Truck sizes
- Inflexibility
- Poor reliability
- Infrequent deliveries
- Poor forecasting





Supply Chain & Logistics Management

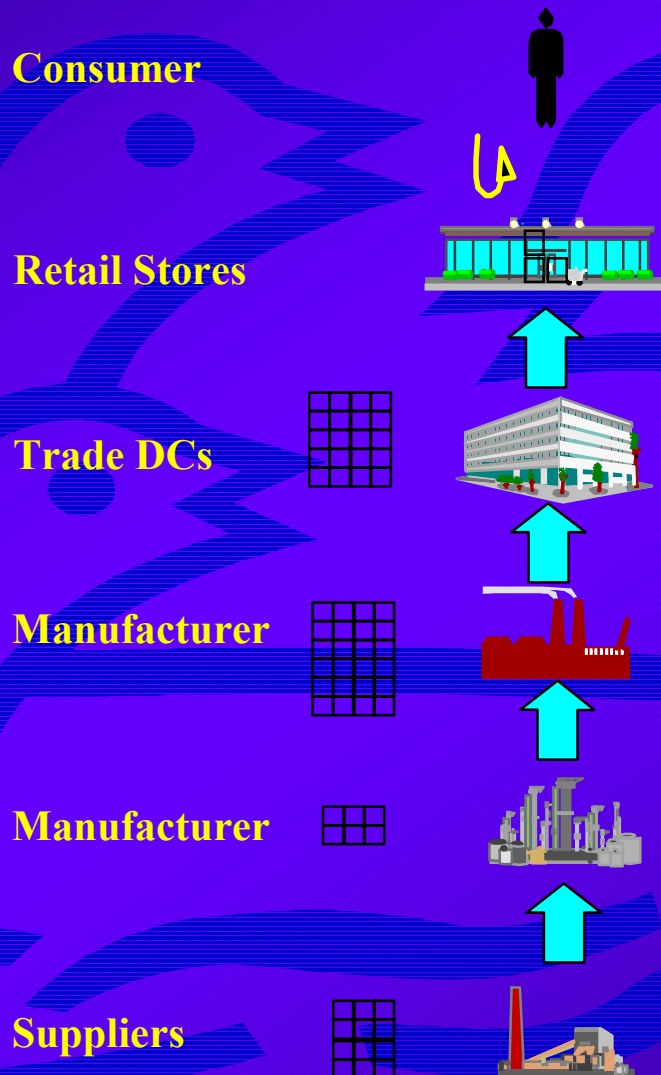
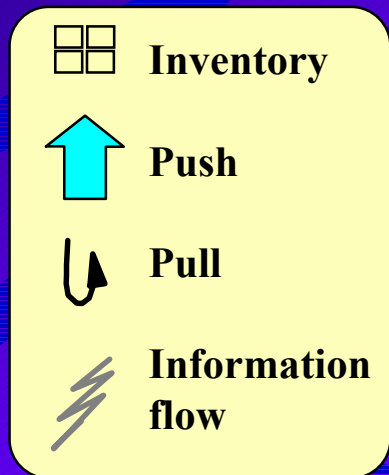
Types of Inventory we are working on...





Supply Chain & Logistics Management

Response to Consumer Demand - "Push" System



Modern inventory management technique should move away from "pushing" products into the holding areas to

SUPPLY DRIVEN



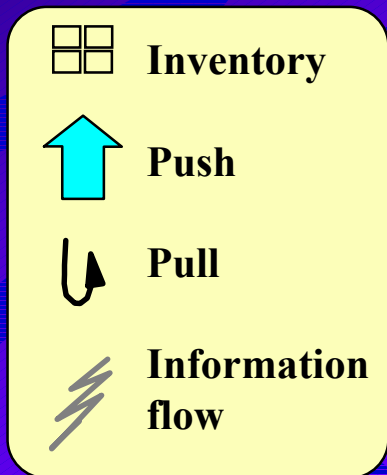
Nestlé

The following material has been developed by Polpiya Thitivesa, Nestlé for an oral presentation and discussion. Without the accompanying oral comments, the text is incomplete as a record of the presentation. The information presented is intended only for the discussion or entity to which it is addressed and may contain confidential and/or privileged material. Any review, reproduction, dissemination or other use of, or taking of any action in reliance upon, this information is prohibited.



Supply Chain & Logistics Management

Response to Consumer Demand - "Pull" System



Consumer

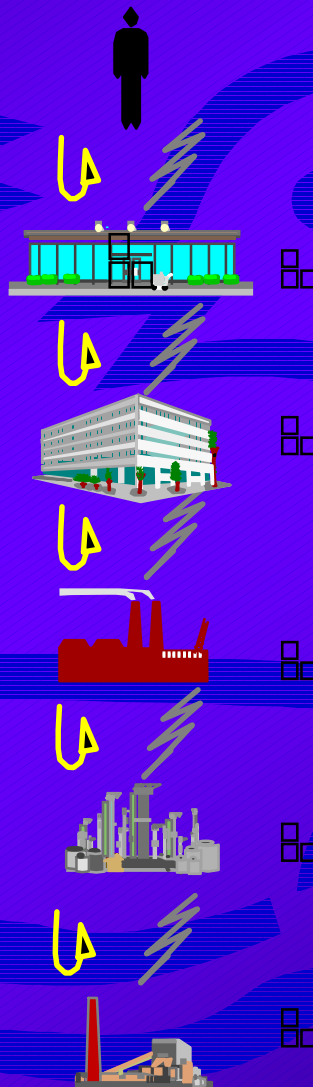
Retail Stores

Trade DCs

Manufacturer

Manufacturer

Suppliers



"pulling" products onto the grocery shelves in response to actual consumer demand

DEMAND DRIVEN



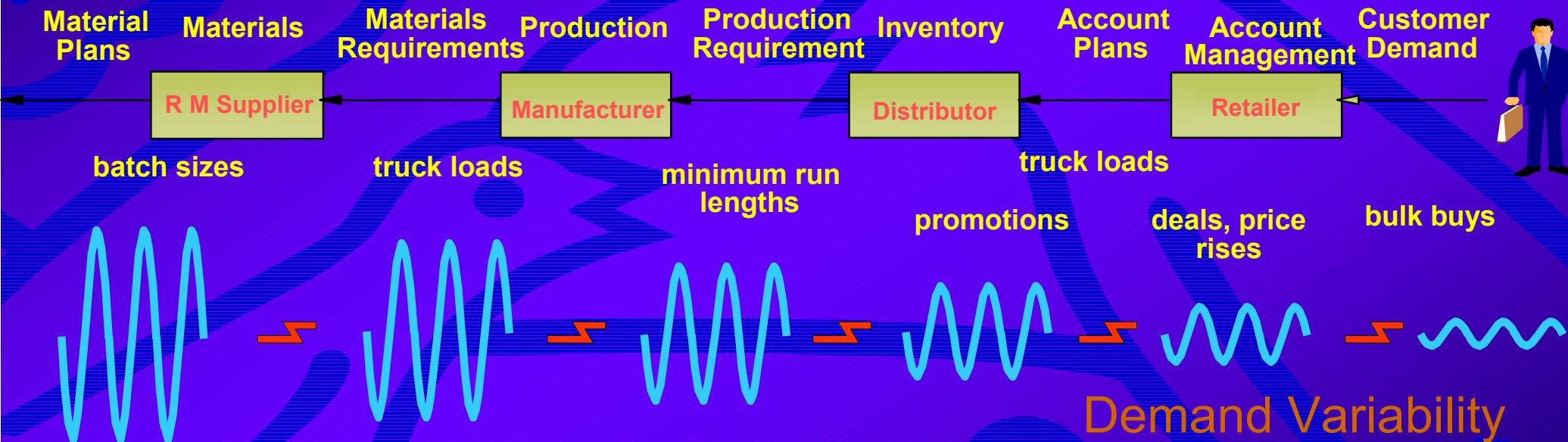
Nestlé



Supply Chain & Logistics Management

Synchronised Production - a pull based manufacturing system

Lack of synchronisation in the supply chain tends to amplify small changes in consumer demand. But what causes lack of synchronisation?



Variability increases cost and reduces customer service performance

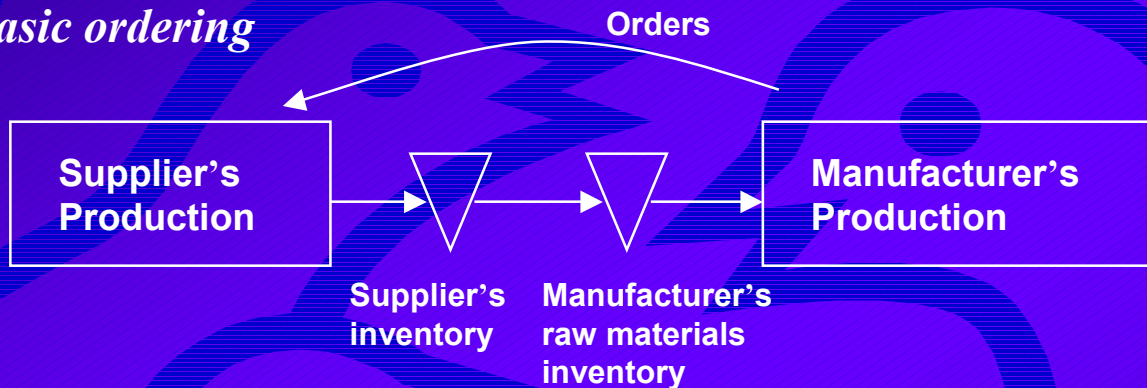




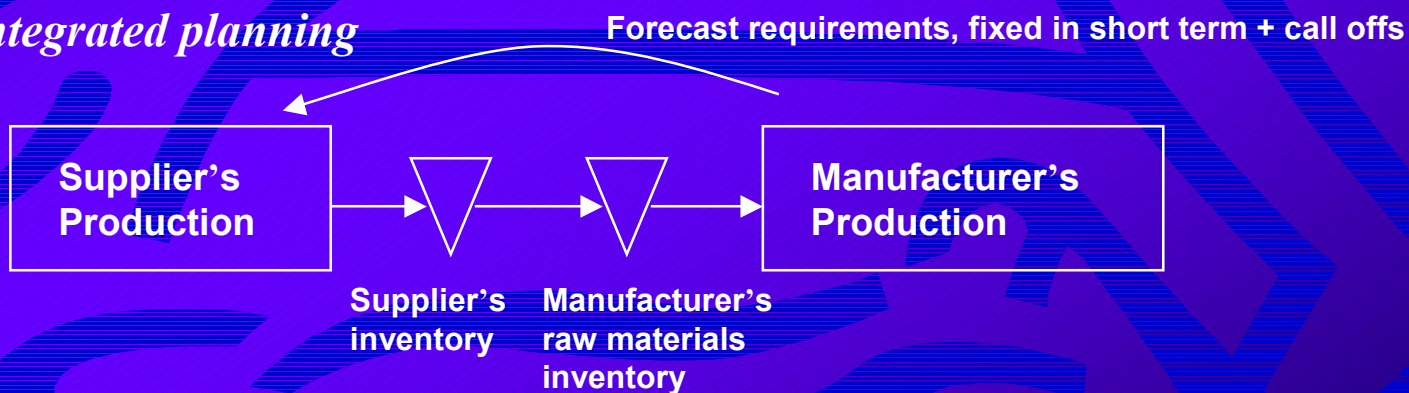
Supply Chain & Logistics Management

Alternative methods of synchronisation

Basic ordering



Integrated planning

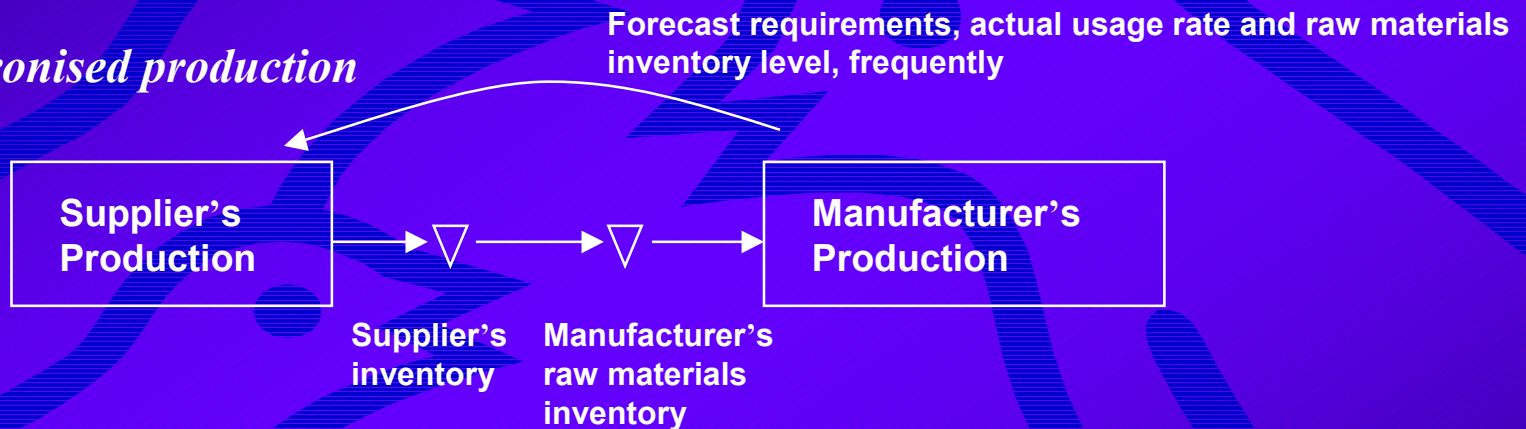




Supply Chain & Logistics Management

Alternative methods of synchronisation

Synchronised production



Supplier attempts to synchronise production to manufacturers so as to minimise inventory levels within capacity limits, based on actual production levels in manufacturer. Supplier replenishes to agreed inventory levels. Requires agreement on variability limits or forecast of demand spikes outside those variability limits

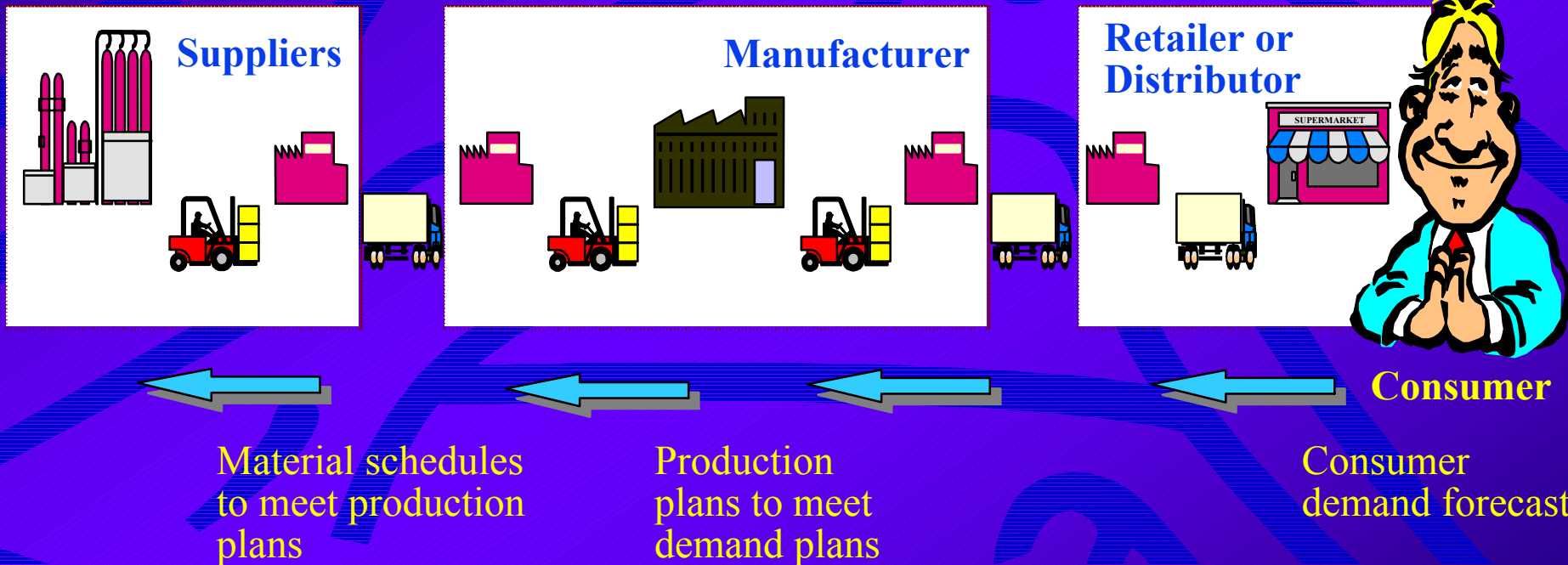




Supply Chain & Logistics Management

Demand Planning

...is an appropriate technique for trying to predict consumer demand, not to second guess retailers' or manufacturers' inventory policy and production schedules



In this way mis-matches between predicted demand and predicted capacity can be managed





Update 5th ECR Asia in Singapore



**The 5th Annual Efficient Consumer Response (ECR)
Asia Conference
Singapore
Swissotel The Stamford (former Westin Stamford)
22nd to 25th October 2002**

**50:50
ECR Business Transformation
50% less out-of-stock 50% less inventory**

Sponsored by





Update 5th ECR Asia in Singapore

Create consumer value

- New frontier on Integrated Planning, Forecasting and Replenishment
- Take the real demand, process on Category Management (not a project)
- Focus on consumer, creating need to 'Solution' Center

Continuous Replenishment

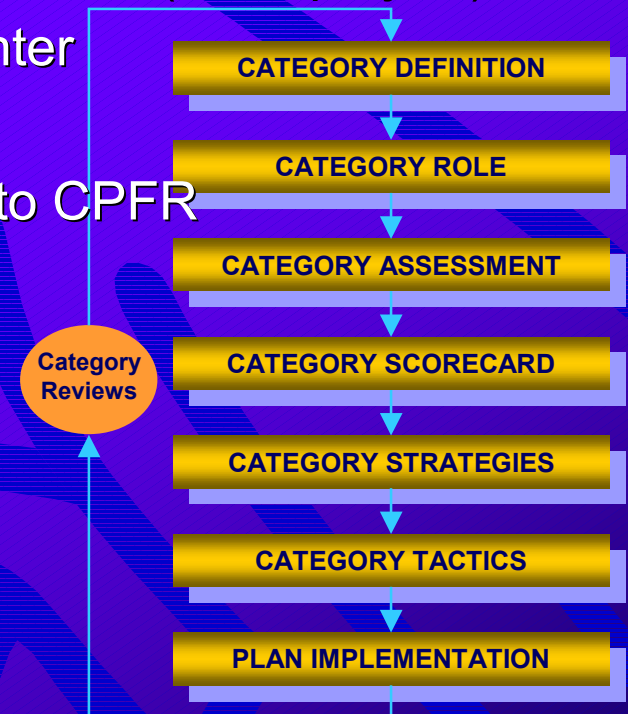
- Simple replenishment to VMI to integrated ordering to CPFR
- Joint supply strategy, OOS Survey

Standard industry

- Standard pallet (1 x 1.2m)
- Promote pallet pool and control mechanism

IT as an Enabler tools

- Focus on track and tracibility (GTIN numbers)
- Promote EDI, Electronic communication and B2B
- Benchmarking the performance to Global Scorecard



Category Management 8 steps



Nestlé



Update 5th ECR Asia in Singapore

Create consumer value

- New frontier on Integrated Planning, Forecasting and Replenishment
- Take the real demand, process on Category Management (not a project)
- Focus on consumer, creating need to 'Solution' Center

Continuous Replenishment

- Simple replenishment to VMI to integrated ordering to CPFR
- Joint supply strategy, OOS Survey

Standard industry

- Standard pallet (1 x 1.2m)
- Promote pallet pool and control mechanism

IT as an Enabler tools

- Focus on track and tracibility (GTIN numbers)
- Promote EDI, Electronic communication and B2B
- Benchmarking the performance to Global Scorecard

