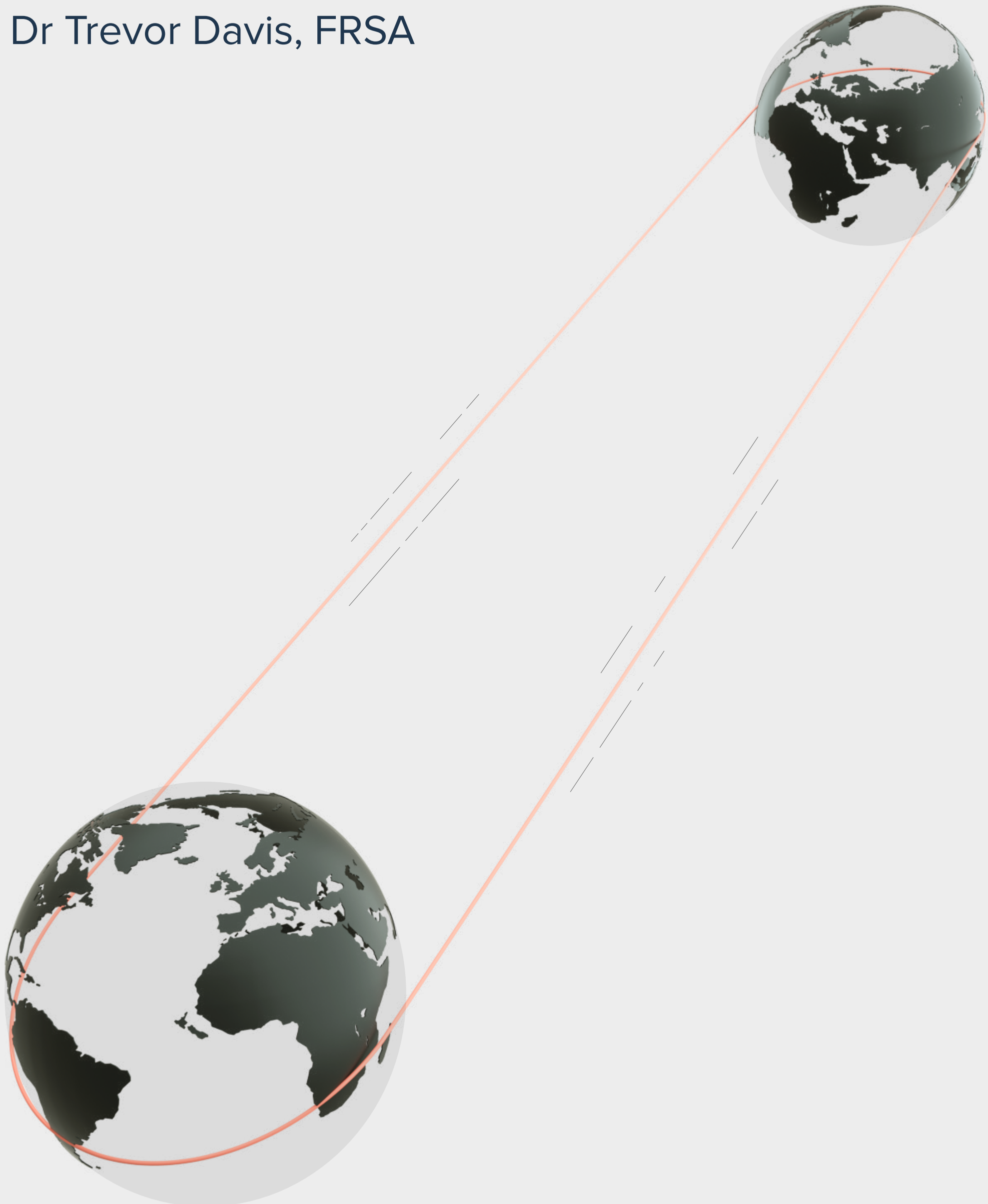
AN ELASTIC BAND STRETCHED TOO FAR

Author: Dr Trevor Davis, FRSA

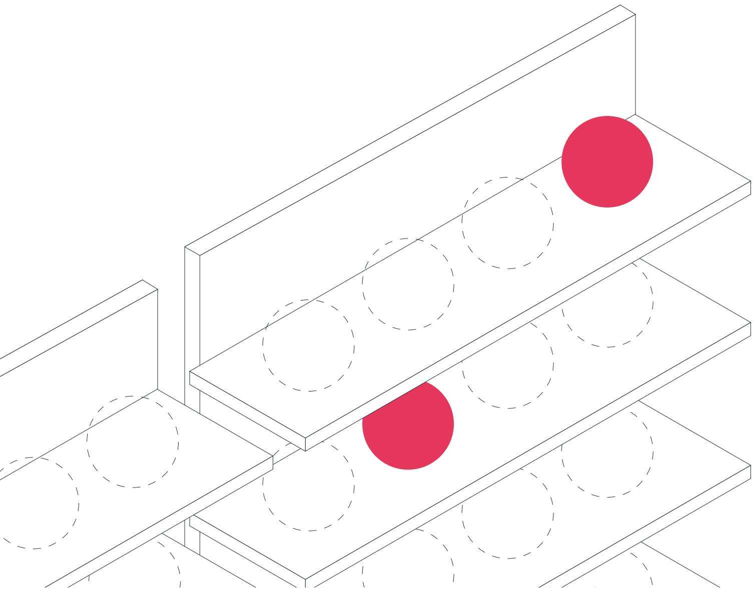


The Consumer Goods FORUM

End-to-End Value Chain

Being ‘locked’ down because of the coronavirus pandemic has few upsides, but it does give you time to pause and think. About what (and who) is important; about the loss of life and the very personal consequences of both the illness and the decisions companies and governments are making; and about what comes next.

It felt like the last few decades of globalising supply chains could stretch like an elastic band, **but what if the band snaps?**



For retailers and manufacturers, the first few months of 2020 have been a peculiar experience. Most were blindsided by dramatic changes to demand patterns (e.g. a record $13bn was spent on groceries in the UK in March according to Kantar), and increasingly tight logistical challenges as the world runs out of white vans and effort is prioritised onto getting essential items to key workers and the vulnerable. Even the purveyors of the infinite shelves of ecommerce such as Amazon have found their Stock Keeping Unit (SKU) selection radically diminished and slotted deliveries impossible to sustain. According to Kantar only a small percentage of UK shoppers actively stockpiled, **but several million households adding a few extra items to their baskets for a week or so was enough to strip the shelves of everything from toilet paper to pasta.** Just-in-time (JIT) has become not-enough-anywhere.

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Perhaps the elastic band will return to normal and the old demand-supply patterns will emerge. After all, consumers are creatures of habit. Possibly we can continue with our ‘proven’ consumer-centric machine-learning models for matching supply with demand. The lessons from all those years of applying lLean to stock levels could still return unchanged. **Maybe, but I don’t think so.** It seems to me that a new normal (or as the US band The Strokes have titled their latest album, ‘The New Abnormal’) is already developing into what looks strikingly like the digital transformation that we’ve all been talking about for so many years, mixed with a renewed passion for pre-JIT inventory management.

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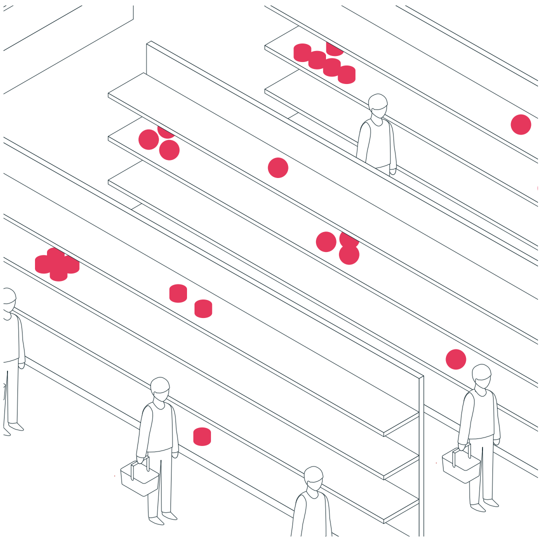

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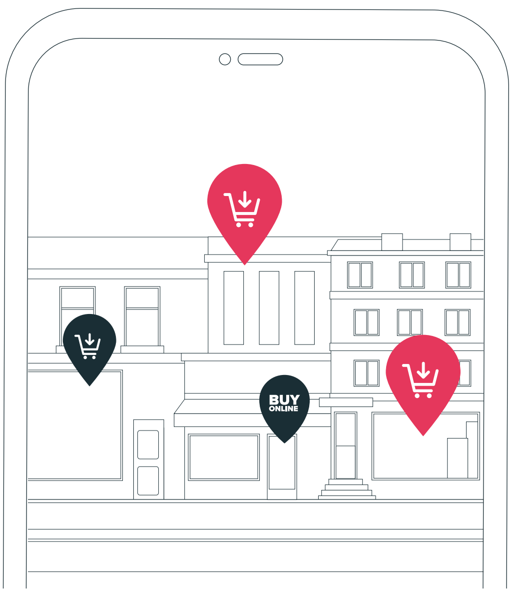


Let me talk from personal experience for a moment. I've shunned from home grocery delivery for years. I like local shops and shopping there, even for the basics. But now I am shut in at home (by government orders) and **shopping at a local store or supermarket is like a scene from the film the Andromeda Strain**, and the shelves are still prone to emptying. Luckily the entrepreneurial retail spirit is strong, and local farmer's markets, convenience stores, and farm-to-forkers have upped their digital game. Within days, and without sophisticated systems, **these businesses have found stock, got online, connected to their customers and kept going**. Even the hallowed British Pub' has been reinvented as a community store in some cases. Alongside the bigger retailers ecommerce efforts, an expanding wave of online offers are available to me, and they are tapping into businesses such as Deliveroo to get an instant fix to the last mile challenge. Even for me, ecommerce for everyday items has become normalised (and remember that before the COVID-19 pandemic, only 7% of UK groceries were sold via ecommerce). It's all messy and prone to failure and error still, but the speed of change is breathtaking.

Of course, this is all precarious as no-one really knows how long the pandemic will continue: much economic activity has stopped and consumers are being careful with money. Yet maybe everything will quickly snap back to how it was like the elastic band in the title. Or not.

I think this rapid expansion of the ecommerce channel in the UK will now continue, even after social distancing is removed. After all, these services are now much more associated with home and safety, and as Karl Haller (Global Leader, Consumer Center of Competence, IBM Global Business Services) wrote recently, 'many consumers will find that digital is just fine, and sometimes even better'.

However, let's not fool ourselves: physical shops will still be the mainstay of grocery retail for a long time to come, and that requires a fundamental re-examination of sourcing, manufacture, distribution, and inventory management so when the (inevitable) **next disruption comes, we are ready as an industry.**

I'm old enough to remember a world before just-in-time (JIT) retailing. Yes, there was a time when demand was known and Economic Order Quantities (EOQ) and Economic Purchase Quantity (EPQ) were the common language of inventory management. As an aside, it is amazing that EOQ has survived as Ford W Harris first published the formula in 1913, but this original paper was lost until 1989. Apparently, this is because the practice at the time was to tear-up magazines after you read them, only keeping the articles of greatest interest.

Yet even in these uncertain times there are lessons to be learnt from the concepts that many of us acquired at University or in the early years in the workplace.

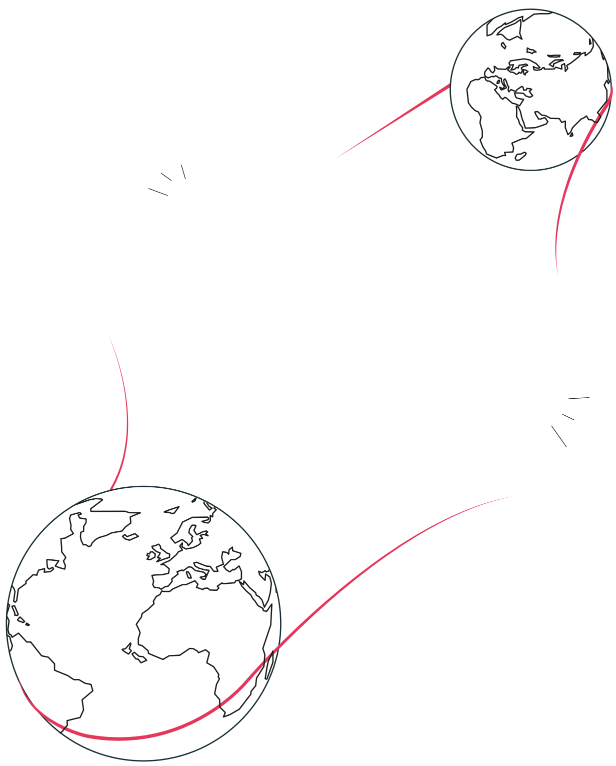
For example, EOQ calculation **requires an understanding of cost per order and inventory carrying costs at the SKU level**: something I find many companies still cannot achieve, even with their sophisticated, integrated MRP systems. Surely this is useful knowledge in a time when demand is volatile and increased cycle and safety stocks are needed to buffer against uncertainty?

Then there are concepts such as strategic stock. In recent years this has become more associated with seasonality or taking advantage of discounts. But there was a time when strategic stock was part of a deliberate decision-making process in Sales and Operations Planning (S&OP) to decouple supply from demand as much as possible. Sounds like something that we need to incorporate into our Integrated Business Planning today.

So what might a new ‘normal’ look like? What kind of digital transformation is likely?

So what might a new ‘normal’ look like? What kind of digital transformation is likely? **How can we learn from the long history of supply chain management to build a more resilient system?**

In my view the **most important thing to ‘fix’ is the signal from the consumer and shelf to the manufacturer.** Firstly, relying on fulfilment models solely built on bygone patterns now seems unwise and, secondly, the **communication of retail demand signals clearly needs to be less error-prone** and much faster. For example, in the recent stockpiling of canned tomatoes in the UK, the major retailers ran out in days but the manufacturers were still catching up weeks later, and yet there was plenty of stock in the country. In a recent article in Forbes, Lora Cecere makes a similar point for toilet paper in the US. Solving this kind of problem is what digital technologies are good at: you just need the urgency of a pandemic to make the leap.



Then there is the logistics problem. Grocery supply chains are long and complex and although I think some re-shoring will happen as a result of the pandemic, we will continue to live with global supply chains. Even the companies with the most well-designed supply chains have been caught out by recent events, and many have found that there is a shortfall of capacity where it is most needed. Many simply don’t have the data needed, and some have turned to satellites and drones for better data. But even with improved data some don’t have the network modelling capabilities to operate with sufficient agility across shipping, air transport, trucking and the last-mile.

If my imaginary elastic band breaks and a new ‘normal’ emerges, then the digital transformation I envisage is one in which the long-discussed data quality and collaboration debates are put aside in favour of action to build industry-wide capabilities. Healthcare is the top priority, but grocery supply chains are not far behind in my opinion.

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As the United Nations say, we are all in this together. **The difficulties we face require creativity,** co-creation and collaboration as never before. Some remarkable events have put this into perspective: in the UK, trading legislation was eased in March to allow competitors to share data, warehousing and distribution capacity.

In 2018, **Tthe Consumer Goods Forum started a series of 'Data Leapfrog' co-creation initiatives involving retailers, manufacturers and service providers.** The aim was to radically improve product data end-to-end. By working together, **successful solutions were found to longstanding problems** (and now we have DataPorts as an open-source framework). Perhaps it is time for a fresh set of Leapfrog initiatives to dramatically improve the matching of demand to supply, and address the difficult lessons of the past few months in terms of distribution and on-shelf availability?

And, to learn more about how the COVID-19 pandemic is impacting the CGF members and the consumer goods industry at large, take a look at the Special Edition: Industry Actions to Tackle Covid-19.

ABOUT

About the Author

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Formerly an IBM Distinguished Engineer, Trevor has been a Consumer Goods Industry expert and futurist for 30 years. As a Member of the IBM Industry Academy Trevor had a leading role in bringing the IBM Smarter Planet vision to life.

Trevor is also a Fellow of the Royal Society for Arts, committed to finding practical, inclusive solutions to societal challenges that touch sustainability, Industry 4.0 and the relationships between consumers and brands.

Trevor brings deep industry insight and a distinctive point of view to his work based on his international business experience, covering Marketing, R&D, Supply Chain and Agriculture.

In recent years Trevor has pioneered using artificial intelligence techniques in areas as diverse as supply planning, hyper-local demand sensing, and engaging with consumers. His work using social listening to predict trends – 'Birth of a Trend' - has been featured in Advertising Age, the New York Times and Forbes.

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About the Consumer Goods Forum

The Consumer Goods Forum ("CGF") is a global, parity-based industry network that is driven by its members to encourage the global adoption of practices and standards that serves the consumer goods industry worldwide. It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of EUR 3.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises more than 50 manufacturer and retailer CEOs.

For more information, please visit:
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