How P&G's logistics revolution supplied a new demand
Jonathan Birchall

As the manager in charge of the world's largest supply chain, Keith Harrison believes the time has come to give the back-room business of logistics more credit.

The head of global product supply at Procter & Gamble believes the search for a competitive edge will focus more on supply chain efficiency as retailers and suppliers battle huge increases in commodity and energy costs.

"Today you have road congestion, you have freight costs, driver shortages, capacity issues. Working capital is at a premium. Competition among retailers and vendors is higher. All of this is putting pressure on execution, which manifests itself through the supply chain. This is more critical than it has been before."

Since his appointment in 2001, Mr Harrison has been at the forefront of efforts to drive costs from P&G's supply chain, helping the company meet its long-term sales and earnings growth targets in spite of surging input costs. But he says P&G has also been looking increasingly over the past three years at ways to turn improvements in the supply chain into top-line sales growth.

"We're trying to make the supply chain into a growth engine for the company," he says. "A lot of the time, supply chain management is reactive, or passive, cost control. But we think there's also an opportunity for us also to have the supply chain create top-line growth as well as bottom-line performance."

An effective supply chain helps manufacturers by reducing a retailer's "out-of-stocks", which in turn prevents lost sales. Those sales also benefit the retailer, while efficient delivery of products to meet demand can also reduce the costs of holding inventory to the retailer.

P&G is telling retailers .that it should be rewarded for the benefits its supply chain delivers - with sales and marketing given metrics that demonstrate the gains delivered by supply chain improvements.

"If I do something with my supply chain to reduce my customer's inventories, I want more than just the 'supplier of the year' plaque," he says. "How do we get that value that we've created at least partially reinvested in growing our business? Do we get sharper pricing, better features, more display, better shelving?"

As an example of the potential benefits, Mr Harrison cites a pilot project with Wal-Mart in the US, whose worldwide stores account for 15 per cent of P&G's overall sales. The two established a co-operative relationship in the late 1980s, starting with Wal-Mart's decision to allow P&G and other suppliers access to the customer sales data collected by its Retail Link computer system.

Over the past 12 months, a P&G factory in Missouri has been using live store sales data not to forecast demand but to schedule replenishment deliveries on a store-by-store basis for a single test product.

Rather than shipping the required volume to a distribution centre, where it is then broken up for each store, the shipments are instead tailored at the factory for the right store. When the goods arrive at the Wal-Mart distribution centre, they are moved directly from P&G's truck to the appropriate Wal-Mart truck, with no time in storage.

"It is assembled for a store, and it is just flowing through the system," says Mr Harrison.

Kevin O'Marah, a logistics consultant at AMR Research, believes P&G is the first consumer goods company to use the Retail Link data in this way.

"The normal behind-the-scenes admission is, yes, we have all this data and we don't know what to do with it," he says. "Typically, it is held in big blocks at headquarters in the demand planning department, and is kept removed from the manufacturing plants and replenishment centres."

Mr Harrison estimates that the process will speed the progress of the product from P&G's factory to Wal-Mart's store by about 10 days, with further inventory savings possible from the store back room to the shelf for Wal-Mart. This makes the project a perfect example of efforts to build "consumer driven supply chain management". P&G is now extending the pilot to other products at the same factory, and talking to other retailers about the approach.

The inventory reductions that can be delivered to a retailer now form part of the overall annual negotiations with leading international retailers, says Mr Harrison. Supply chain improvements can be incorporated as part of a "joint value creation plan".

"Historically, we've thought about joint-value creation in the context of brand initiatives of promotions or whatever... the concept of creating it through your supply chain has been new," he says.

So new, he adds, that it has also involved a "mindset shift" for P&G. "It's a culture shift for our sales organisation because they haven't thought about or understood supply chain capabilities. So this has been a learning curve for all of us. It's getting traction now and it's starting to go pretty well."

Mr O'Marah says P&G is unusual in having actively demonstrated the importance of its supply chain as a driver of sales: "P&G is in a leading position here... recognition of the importance of the supply chain goes all the way up to [chief executive AG] Lafley at the top," he says. Elsewhere, the idea "has spread throughout everyone's PowerPoint presentations, but not to everyone's practices yet".

Fonte: Financial Times, London, August 22 2008. Primeiro Caderno. p. 12.