DRIVING INTELLIGENT SKU MANAGEMENT TO INCREASE SUPPLY CHAIN EFFICIENCY

How a business orchestration platform helps companies connect the dots—all the way down to the product level—and manage their biggest supply chain pain points in today’s competitive business environment.
Yesterday’s supply chain was static, linear, and sequential. Today’s supply chain is dynamic, multifaceted, and in a constant state of flux. To keep up with the speed of market disruption and deliver the highest value to their customers, organizations need to leverage technologies and tools that help them assess, strategize and pivot strategically in real time—not days or weeks later.

The global pandemic has underscored this mandate for manufacturers, distributors, and retailers alike. Organizations that were able to successfully respond to the disruption and continue their operations during the COVID crisis focused on basic supply chain functions like production, inventory, transportation, and purchasing—and by aligning all partners across the network.

As part of that process, companies started paying closer attention to the individual stock keeping units (SKUs) and parts that came together to make up their end-to-end supply chains.

“At the end of the day, the lifeblood of everything in the supply chain is based on how inventory flows through the network and ultimately down to those SKUs themselves,” says Evan Quasney, VP of global supply chain solutions at Anaplan.

IT’S NOT GETTING ANY EASIER

Product complexity proliferation, increasing supply chain process variability, and consumer demands for personalization continue to create challenges. Many organizations announced plans to streamline their product portfolios during the COVID pandemic, in an effort to mitigate supply risk and boost profitability.

Supply chain disruptions, external factors (e.g., the pandemic, tariffs, trade wars, Brexit, etc.), and internal organizational challenges only exacerbate the need for a unified, cloud-based platform that arms supply chain leaders with line-of-sight visibility across their entire ecosystem to assess product viability.

Getting everyone in the organization on the same page isn’t always easy. Competing key performance indicators (KPIs) and incentives are often at odds with other departments. For example, when procurement, finance, and sales aren’t working toward the same goals, the overall supply chain—and subsequently, the customer—will suffer as a result.

Sales, for example, may focus on revenue closed or shipped, while finance manages the organizations to budgets, and procurement often focuses on best-value, which may not achieve
delivery margin, or service-level requirements. Supply chain brings the organization together with a priority focus on forecast accuracy. Success requires ensuring company-wide goals factor in the tightly intertwined nature of manufacturing, sales, distribution, procurement, finance, and marketing—and aligning everyone on those goals.

“You can’t be effective if you don’t have that alignment,” says Quasney, who tells companies to ask themselves these questions: How can we keep costs low and still plan for the unexpected? How do we not tie up working capital and safety stock, but also be prepared for a spike in demand? And, how agile can we make our supply chain to respond without tying up a lot of costs in it? “These are questions that many companies have right now,” Quasney adds.

Companies can find the answers to these questions and start making changes by beginning at the individual SKU level, where increased complexity, variability, and price/position are driving the need for a more holistic, unified supply chain management approach. Here’s how these challenges are making an impact on shippers and some advice on how to overcome these issues.

**CHALLENGE #1: SKU COMPLEXITY**

Heightened competition and ever-evolving consumer preferences have driven companies to develop a wider variety of products. This has created a high level of SKU complexity and is forcing companies to either learn how to manage the complexity, or risk hurting their bottom lines.

Quasney says SKU complexity has created these two key impacts for manufacturers and sellers alike:

1. **Far more intermittent demand around individual products within product families.** While demand at a product category or family may be static, when you dig down into the actual SKUs within that product family, there’s far more variability in the demand (versus what you’d see at the individual SKU level). “This higher level of variability is creating a binary decision with customers,” says Quasney. “They may show up at the store and say to themselves, ‘Wow, I have 30 options in front of me. I can't make a choice.’” At that point, the customer may move on to something else.

   Intermittent demand is also compounded by substitution; a customer may find their desired product is out of stock, and they choose the next best alternative simply because it is available. This alternative viability is manifest in demand...
lumpiness, but oftentimes impossible to determine the cause without additional insight, such as category stock-out rates, or competitive product availability.

**2. Significant implications for product portfolio design.** As more items enter the product portfolio, there is an exponential increase in the opportunity of different combinations or bundles that can be created. This, in turn, starts driving what customers should be looking for. “Most organizations struggle to build their exact assortment into that market basket,” says Quasney. “They’re looking to customers to provide clues as to what package they want.” A trend in e-commerce, for instance, is pre-building bundles of clothing and accessory assortments for customers, effectively taking the complexity of basket decision-making process out of consumers’ hands while also creating a lot of value for the company itself.

“Combine the rise of complexity with simultaneous decision fatigue,” Quasney explains, “and that SKU complexity can create a massive trail of difficulties across the entire supply chain.” Solving this problem requires good collaboration across all departments and the sharing of data like production, marketing, and distribution costs—right down to the individual SKU level.

Key questions that must be answered include: Is this SKU actually going to be accretive to my bottom line? Will it give me meaningful contribution margin for the business? And, how long will that last? “Using good financial decision-making, you can bridge that data into your volume and assortment planning,” Quasney advises. “That’s an area where Anaplan’s platform is uniquely positioned to bridge across multiple functions and make these decisions over time.”

**Related to SKU complexity, but mutually exclusive, the lack of fixed pattern or consistency in SKU management or “variability” is the second major pain point that shippers experience. Driven by the growth in e-commerce sales and a high frequency/low quantity of orders, SKU variability has infused more uncertainty into the supply chain. For example, two decades ago, almost every brand of ketchup on the store shelves came in glass bottles that consumers picked up at the grocery store.**

Fast-forward to today, and not only are there more packaging options to choose from, but ketchup itself is now available in many different flavors and varieties. This SKU variability puts unique pressures on manufacturers, distributors, and retailers, largely driven by costly inventory targets by channel and limit-
ed shelf space. Ensuring that the right product is in the right place, at the right time and right price, is largely a guessing game without good demand-sensing and forecast accuracy.

“Companies are leveraging advanced demand management capabilities to improve forecast accuracy and minimize the variability between a ‘plan’ and what actually takes place,” says Quasney. Using external signals, for example, companies can create more accurate demand predictions and improve forecast accuracy. Then, they can tailor their forecasting processes; incorporate third-party information, advanced analytics, and overrides into the mix; and ultimately get a robust, data-driven approach.

**CHALLENGE #3: SKU PRICE AND POSITION**

“This is a core capability of Anaplan’s platform,” says Quasney, “which improves forecasting and scenario decision-making while driving a reduction in variability across the board.”

In today’s competitive marketplace, companies want to be able to influence and “nudge” customers toward desired products while also decreasing SKU variability. Where this may have been straightforward in the brick-and-mortar world, it’s much more difficult to do online—where the next competitor is literally one mouse click or screenshot away. To achieve the most relevant, dynamic pricing approach, companies must factor in both the channel that they’re selling through and their product’s position in relation to other competitive products.

“From the consumer’s perspective, it’s no longer just about physical placement on a store shelf,” says Quasney. The demand elasticity curve (i.e., the responsiveness of consumers to a change in a product’s cost) also comes into play at this point, effectively forcing companies to consider their customers’ buying habits as pricing goes up, down, or stays the same. These are all complex considerations that can’t be managed effectively with siloed or manual systems.

“Getting to the best SKU price and position is a multidisciplinary, cross-functional exercise,” Quasney explains. Using a connected planning platform that involves all departments and stakeholders, companies can readily work through the complexities of this challenge, assess any trade-offs, run through the possible scenarios, and come up with an effective strategy for managing SKU pricing and positioning.

“Ultimately, companies need to know the unit economics necessary to orchestrate business performance and keep their cash flow liquid,” says Quasney. “Anaplan’s platform can handle all of that.”
WANTED: COLLABORATION AND CONNECTIVITY

During the 2008 recession, companies began transforming their approach to supply chain management as executives recognized supply chains were not a cost center, but a core strategic lever. This ongoing elevation of supply chain from the back room to the boardroom has put logistics and supply chain managers into the driver’s seat, and made their contributions and insights more vital than ever.

Today, supply chain leaders are viewed as those who ultimately manage, and orchestrate, business performance—de-risking supply chains that could constrain top-line revenue growth, while balancing complex tradeoffs to deliver gross-margin targets.

In the absence of this kind of platform, manufacturing will continue to churn out the same products it always has; procurement will keep buying raw materials to support that process; and sales and marketing departments will operate in their own corporate silos.

“Supply chain leaders are truly being seen as partners because they have to touch every part of the business—from product development to day-to-day operations to the distribution to the end customer,” says Quasney. “To support this shift while also driving collaboration across the business, companies need collaborative platforms and tools that support good decision-making.”