

Lost Profits in the Marketing Supply Chain

Logistics strategies to reduce shipping and warehousing costs for print and promotional materials **By Brian Harvey**

TODAY'S MARKETERS ARE living in the era of Supply Chain Management. Do they realize this? Probably not, but they should. The economy and the constantly rising cost of fuel should be causing marketers to reexamine their marketing supply chain in an attempt to reduce costs. Transportation should be a natural target to examine because, despite its

value, most marketers view freight as a cost center and never identify the “low-hanging fruit” that presents an opportunity to add hundreds of thousands of dollars — or even millions — to their bottom line.

Companies like Wal-Mart and Dell are admired not because they have the best products or marketing but because they

excel at managing the flow of materials and information from suppliers to end users.

For most corporate marketers and ad agency production managers, however, shipping, inventory management, and fulfillment are remote concepts. Driven by the top line, they view such functions as a necessary evil. As a result, their companies lack basic logistics-management

Bottom Line

expertise and spend as much as 30 percent more than is necessary. When dealing with a marketing budget of \$100 million, for example, attentiveness to the marketing supply chain could result in about \$2 million in savings. Ignoring such savings in the field of manufacturing would be unthinkable, but in the right-brain world of marketing it is more the rule than the exception.

Writing in *The Wall Street Journal*, John Quelch, a professor of marketing at Harvard Business School, states that marketers can develop campaigns to drive sales, but they show little interest in the balance sheet impact of their overall promotional programs. "Today's boards don't need chief marketing officers who have creative flair but no financial discipline," Quelch explains. "They need ambidextrous marketers who offer both."

While shipping and warehousing costs represent a relatively small percentage of an overall marketing budget, any savings drop right to the bottom line. The good news is that you don't need a logistics degree to tap into these savings. As a first step, corporate marketers looking to improve the flow of materials and information should examine current shipping and warehousing practices for both above- and below-the-line materials.

Basic Freight-Management Strategies

Traffic departments within manufacturing companies use proven strategies to squeeze every last penny of savings from the company's freight budget. Those same strategies can be applied to reduce costs when shipping ads, billboards, point-of-sale items, and newspaper inserts. Here are a few key methods used to achieve freight savings.

Leverage freight volumes. Marketers typically don't aggregate total transporta-

tion spending across multiple brand projects. Instead, they allow suppliers to manage shipping for them. By directing all vendors to use a single shipping partner, marketers can take advantage of price reductions based on freight volume.

Inbound freight + outbound freight = cost savings. Marketers can also leverage their freight spend to control escalating fuel surcharges. Current

prepress, printer, posting house, or another downstream location. An experienced shipping partner will work with agencies to eliminate these unnecessary and expensive rush shipments. You should always ask for alternative shipping options that are more economical.

Boost productivity through better visibility. Improved logistics management can also save time, which translates into labor savings. Because shipping responsibilities are often decentralized, marketers or their agencies can spend hours determining if a shipment arrived in time to meet campaign deadlines. Today, there's a better way. New technology makes it possible to receive an electronic feed from carriers and post the status of shipments on the Web.

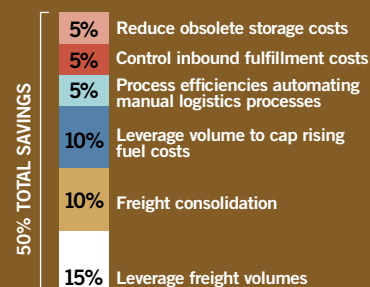
Reining in Logistics Spending

Shipping and logistics management for below-the-line material, like premium items and promotional literature, is another area that offers savings potential. Typically, multiple brand teams choose their own suppliers (often for the same commodity) and shipping is left to the supplier. When suppliers handle shipping, goods are purchased on "prepaid" terms, meaning that freight expense is built into the product's cost.

While marketing production teams are glad to offload the headache of shipment coordination, particularly if goods are coming from overseas, many are unaware that their suppliers may be using transportation as a profit center. The vendor may receive a steep freight discount for shipping large volumes for multiple clients but not pass this savings on to customers. By shifting payment terms to "collect," marketers control the freight earlier in the chain and can drive cost and service improvements.

MARKETING SUPPLY CHAIN: COST SAVING OPPORTUNITIES

Axis Global Logistics estimates that marketers can realize savings of 50 percent on freight by following these proven strategies.



Source: Axis Global Logistics

industry-standard fuel surcharges can represent 25 percent or more of a marketer's total freight spend.

Consolidate. Agencies often use multiple suppliers to create materials that ship to the same destination. Typically, each supplier manages its deliveries and charges the advertiser. Alternatively, the advertiser could assign a third-party freight forwarder to coordinate and consolidate these shipments. Consolidation offers potential savings of up to 20 percent.

Choose the right mode. Not every delivery has to be overnight. When last-minute creative changes delay a production process, the inclination is to deliver the work as soon as possible to

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—BRIAN HARVEY, CHIEF OPERATING OFFICER, AXIS GLOBAL LOGISTICS

Another costly consequence of poor logistics coordination for below-the-line items is the lack of controls to ensure that what was ordered is what was delivered. In manufacturing supply chains, receipts typically are checked against a purchase order and discrepancies are addressed on the spot. Unfortunately, this trail of paperwork is not the rule in marketing supply chains, and marketers pay the price for this lack of a disciplined, systems-based process.

Shipping functions that are difficult for multiple brand teams to coordinate are actually routine transportation management tasks for an experienced freight management partner that oversees all freight activity.

A Disciplined Process for Fulfillment

The last stage of a marketing supply chain can require the assignment of a dedicated fulfillment warehouse to manage assembly of press kits, employee welcome packets, and other marketing kits. This provides a central point of quality control and distribution for the materials. Too often company profits are wasted in this area due to the lack of process and inventory management disciplines. Here are some common problems.

Many players, but no one in charge.

Without clear direction and communication, fulfillment projects can easily go awry. A rush kitting project can easily involve as many as 10 stakeholders. With input to the fulfillment house coming from multiple people, you run the risk of mistakes, added labor hours, and ultimately higher costs.

Poor inventory management.

Marketers are not in the inventory-management business, which is why they often learn they are out of stock on a product when they can't fill an order.

The solution is to assign each item of inventory an SKU (stock keeping unit) number and a detailed item description. A warehouse management system can establish this SKU structure and make the information available via the Web for proper order entry.

Retaining obsolete inventory.

Products that become obsolete, like high-tech components, are regularly written off and discarded. However, marketers tend to hold on to print and promotional materials, increasing warehouse costs. For example, sales literature is regularly updated and restocked, but often the warehouse is not told to discard the outdated version. It is not unusual for marketers to expand to new and costly warehouse space, even though the existing warehouse is “full” with old, unused literature and premium items.

No paperwork. Less paper is usually a good thing. Still, accurate warehousing and fulfillment requires certain paper-based steps to ensure accuracy. Typically, items are ordered with a purchase order. When these items arrive at a warehouse, a packing slip of shipment contents is checked against the P.O. to make sure what was ordered is what was received.

Addressing these fulfillment problems can cut 20 percent from warehousing and inventory costs. To mine these savings, logistics expertise and systems are required. Rather than invest in the people and systems to handle logistics internally, many companies outsource coordination of kitting and distribution to an experienced fulfillment partner. In addition to providing the systems and infrastructure, the right logistics partner can act as an extension of the client's marketing department, installing process discipline and coordinating multiple vendors on the client's behalf.

Maximum Savings Requires Collaboration

Today's marketing supply chains include a variety of ad agencies, clients, prepress shops, printers, warehouses, and product suppliers. Often these parties act independently, despite the fact that work is done on behalf of a single client. The most efficient supply chains are those in which all parties collaborate to speed the flow of goods through the chain at the least possible cost.

Improved logistics management will never be the profit engine for marketing that it has become for manufacturing supply chains. But today's marketers are under more pressure than ever to control costs. By borrowing proven logistics-management practices from their manufacturing colleagues, they can reduce transportation and warehousing costs by 15 percent to 30 percent and devote more of their marketing budget to driving brand revenue, where it belongs.

Today's marketers are engaged in a volatile and complex supply chain environment. They should seek deeper relationships with their current logistics provider to achieve the cost savings resulting from the “low-hanging fruit.” A true logistics partner can and will provide the technology, industry experience, and infrastructure to integrate the marketing supply chain. ■



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Next Steps

This article is adapted from a white paper published by Axis Global Logistics. Download the full report at www.axisg.com.