

# Fmcg supply chain- managing complexity



**FMCG SUPPLY CHAIN MANAGING COMPLEXITY “ Managing Complexity”:**

Managing complexity can be explained clearly with the help of following trends- 1) Increasing Number of Products and Services: With the increasing consumerism and competition among the organizations to attract more and more customers, customer has become more demanding and uncompromising. Companies are customizing products more and more to retain old customers and attract new customers, to fulfill increasing customer demand and gain competitive advantage over rival firms. This has led to the introduction of large number of new products with multiple SKUs which have very short life cycle. All these factors have led to increased complexity in supply chain which needs to be managed carefully.

2) Increasing Number of Suppliers: With the advent of large number of new products and SKUs, company's demand for new raw materials is increasing continuously. This increasing demand for different raw materials has led to the large number of suppliers supplying to one company. Managing increasing numbers of suppliers in a supply chain is a complex task. 3)

Global Sourcing: With the increasing globalization and pressure to reduce cost, companies are looking for cheaper sources of materials globally. They are sourcing materials from all over the world. This increase in the number of distant suppliers adds to the complexity of supply chain.

4) Increasing Number of Manufacturing Locations: With the dipping margins and increasing competition, companies are spreading their manufacturing facilities to the places where it is cheaper to produce goods. Goods are produced at these locations and then transported to either central distribution centre or directly to the regional markets depending on the cost

of distribution. This has made material requirement planning and manufacturing a very complex activity. 5) Increasing Number of Distribution Centers: With the companies targeting global markets to sell their products, need to store these products at distribution centers close to the market has increased. Increased transportation cost has also contributed to the increased number of distribution centers.

Storing products at multiple locations reduces the visibility in the supply chain and makes inventory management a complex activity. 6) Increasing Number of Distribution Channels: For the wider reach of their varied products, companies are adopting different distribution networks suited to the products. Company may choose to sell the products directly via mail order, internet or phone; through any third party agent or through a network of distributors, wholesalers and retailers or any combination of these. This has made channel management a complex activity.

) Reducing Lead Time Increasing Number of Shipments: With the compressing time line to fill customers order, lead time is getting shorter and shorter day by day. This has made consolidation of goods a difficult task and led to a significant increase in the number of smaller shipments. All this has made transportation planning very complex. All these smaller trends taken together lead to the mega trend " Managing Complexity". Why " Managing Complexity" is a Mega Trend in Supply Chain Management: In a flatter world where supply chains are getting longer and complex day by day, managing complexity is the key to competitive advantage.

All these seven trends mentioned above play an important role in growing complexity of supply chain. Complexity makes a supply chain less responsive and inefficient and it also drives cost up and profit down. So, managing complexity is a key to success of supply chain in the current world. All these factors make “ Managing Complexity” a mega trend. Why “ Managing Complexity” is Important? 1) Lower Margins- FMCG are products with relatively lower margins and long supply chains. Freight absorption capacity of these products is very low as compared to other products.

Any inefficiency in the supply chain will lead to disastrous results. As complexity makes supply chain less efficient, managing complexity of supply chain is the first priority in the FMCG industry. 2) Large Number of Customers- FMCG products are large footprint products and have large number of customers. These large numbers of customers consume FMCG products in relatively smaller quantity, so last mile delivery is a challenge for producers. Producers need to have a distribution channel to cater to small demand of an individual customer.

3) Large Number of SKUs- Large number of SKUs in FMCG industry makes the products handling really complex. Keeping track of stock with large number of SKUs is a complex task. Receiving FMCG goods, checking them, storing them in the correct way and then checking them out again takes long time and costs huge money. 4) Faster Turnaround- FMCG products require faster turnaround due to shorter shelf life and seasonal demand of various FMCG products.

This requires supply chain to be very agile and puts extra pressure on supply chain. 5) Wide Distribution Network- FMCG products are relatively low value products for which convenience of purchase is the first criteria for buying.

This creates a necessity for wider distribution network close to end customers. 6) Shelf Presence- Shelf presence and visibility of products is vital to FMCG products. Any Stockout results into loss of sales because customer is not willing to wait for these kinds of products and plenty of rival products are available in the market.

So, timely supply of goods is very critical in FMCG industry. 7) Dynamic Product Flow Pattern- Demand for FMCG products keep on changing continuously depending on seasonality and product life cycle. This leads to variable flow pattern of goods and dynamic routing is required to match changing flow pattern. Customers of FMCG products want right product, in the right place at the right time and at the lowest possible cost. All the above mentioned complexities are time consuming and cost huge money to supply chain.

This provides huge incentive to manage complexities in the supply chain of FMCG products. IMPACTS OF “ MANAGING COMPLEXITY” ON SUPPLY CHAIN AS A PROFESSION: This mega trend will lead to the following developments in supply chain management- 1) Huge Investment in New Information Technology in Supply Chain- Managing complexity requires clear visibility across whole supply chain. This increasing demand for visibility across the supply chain will put too much pressure on existing IT infrastructure and lead to huge investment in new IT technologies in supply chain to manage complexity. New technologies like RFID, RTLS, GPS, Auto ID, and mobile <https://assignbuster.com/fmcg-supply-chain-managing-complexity/>

computing devices, tags and readers will become part and parcel of supply chain.

Role of collecting, processing, and integrating the data will be completely taken over by new IT systems. 2) Increased Co-ordination Among Supply Chain Partners- As the complexity in supply chains is increasing; requirement for co-ordination among supply chain partners is also increasing. Managing complexity requires a very good co-ordination between all the supply chain partners. 3) Process Standardization- Due to increasing complexity in supply chain, processes are also becoming more and more inconsistent.

Inconsistent processes lead to unexpected and inconsistent results. To address this issue many companies are focusing on process standardization throughout the supply chain to make sure consistency of results. This process standardization has led to following benefits- a)Reduction in working capital b)Reduction in inventory costs c)Reduction in order turnaround time )Improvement in inventory turns e)Reduction in warehouse pallet space required 4) Performance Based Logistics- As the complexity in the supply chain is increasing; level of non value adding activities in supply chain is also increasing. This will lead to inefficiencies in supply chain and put pressure to find new tools to manage complex supply chain. Performance based logistics is the newly developed concept currently being used by U S Department of Defense to handle complex logistics issues.

PBL may become a very effective tool in managing complexity in supply chains. ) Prioritization of Products and Services- Managing complexity will lead to prioritization of products and services across the supply chain. Low

priority products and services in the supply chain will become obsolete and disappear from supply chain. GLOBAL SUPPLY CHAINS With the increasing outsourcing and offshoring activities in the field of manufacturing as well services, today's supply chains are growing global day by day. As global supply chains involve number of countries, it increases complexities in supply chain that need to be dealt with appropriately. IMPACT OF “MANAGING COMPLEXITY” ON GLOBAL SUPPLY CHAINS: As trend of managing complexity increases, complexities of global supply chains will reduce and lead to the following developments - 1) Reduction in number of sub-optimized global supply chains 2) Increase in globalization to take maximum cost advantage through cheaper sourcing 3) Better access to lucrative global markets 4) Reduction in lead time and more scope for further globalization of supply chains 5) Improvement in information flow globally across supply chain 6) Improvement in the reliability of global suppliers 7) Improved performance of global supply chains