Supply Chain Strategy At Global Soup Manufacturer: Refocusing North American Supply Chain For A New Competitive Environment

The Challenge: BigSoup is a large and well-established manufacturer of soups. The company had made a very thorough effort to capture all of the potential savings from improving supply chain functions individually and, as a result, was recognizing a roughly 3% per year reduction in COGS. Although these savings were significant, the benefits from all currently underway initiatives were expected to taper off within 4 years and would be insufficient to meet the division's goal of gaining an additional 10 to 15% in total cost savings over the coming 3 years. To meet this goal, management felt that a broader strategy had to be developed for the supply chain which would leverage the strengths they had honed and would shift the group to become a profit center.

Because we had assisted in many of BigSoup's improvement efforts and were very familiar with the company's strengths, BigSoup asked us to help develop an overall strategy to leverage its supply chain.

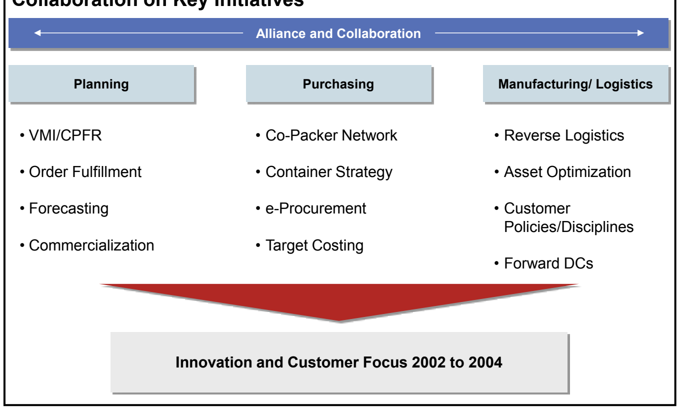
The Partnership:
Analysis: Our joint team (4 senior managers from BigSoup's supply chain division and 2 consultants) spent 2 months assessing the competitive situation and developing a recommended approach.

The team concluded that changes within customers, competitors, and suppliers were shifting business requirements and creating new opportunities/challenges for BigSoup:

- Massive consolidation within the retailers who constituted the core customer group was giving these players increased bargaining power, increased ownership of consumers, and the ability to launch competitive private-label products. Customer consolidation was creating significant pricing pressure, threats to BigSoup's brand and volume, and more stringent retailer-dictated terms of service.
- Competitors had grown in size significantly, eliminating the scale advantage that had historically been a major differentiator for BigSoup.
- Finally, the number of supplier alliances in the industry, spanning functions from logistics to manufacturing outsourcing, was growing significantly and this was becoming a proven area of high potential opportunity which BigSoup had not yet tapped.

These trends had raised the level of competition. In order to address the new environment, BigSoup had to increase manufacturing, distribution, and purchasing scale, increase financial resources, and broaden shelf presence. The team concluded that these objectives could be accomplished either by growing through acquisition or extending control by developing collaborative alliances.

To Gain Scale, the Supply Chain Focus Will Center on Alliances and Collaboration on Key Initiatives



Strategy: The team recommended that supply chain management focus on alliance and collaboration up and down the supply chain. Upstream, the focus was on areas where BigSoup could form alliances with other large can customers to pool acquisition, reducing the vendors' commodity risk and lowering pass-through costs significantly. Midstream, the strategy was to pool distribution volume with a broad range of grocery suppliers to share warehousing and outbound "last mile" transportation, reducing costs to a degree not possible individually. Downstream, the plan was to collaborate with other grocery suppliers on a planning and promotion process and infrastructure in order to create sufficient scale for a given program to make retailer investment in compatible logistics information systems more attractive, facilitating savings on both sides.

The Results: Implementation of the proposed changes would extend BigSoup's control over cans from fabrication to the retail shelf. Based on analysis of the company's cost structure and the expected impact of each specific recommendation, the team estimated that collaboration and alliances would allow BigSoup to meet its target of an additional 10-15% in savings within 3 years.

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