



The Private Label Supply Chain

Improving Performance Through B2B Outsourcing

Over the last two decades, United States private label and store brands have garnered a larger part of the retail market. Private labels enjoyed strong positions in the apparel sector for decades, but recently private label has been growing in food, consumer packaged goods and specialty products as well. Private label has grown from approximately 10% for many sectors to as much as 40% today. During the same period, European private labels have been even more successful. In addition, some apparel and home furnishing retailers in both the US and Europe, along with grocery chains like Aldi, have seen nearly 100% of their sales coming from private label products.

DEFINITIONS RETAILERS:

Companies that sell goods directly to consumers. Retailers that are vertically integrated use their own factories to produce some of their own private label products.

MANUFACTURERS:

National or global brand owners. Manufacturers have traditionally developed and marketed the brands we are most familiar with. They may or may not actually manufacture the products. As part of their business, they may also produce private label products for retailers.

SUPPLIERS:

Companies that either manufacture products on behalf of a retailer or brand manufacturer or provide components or raw materials for the process. Those that manufacture products on behalf of manufacturers or retailers are known in industry as “contract manufacturers.”

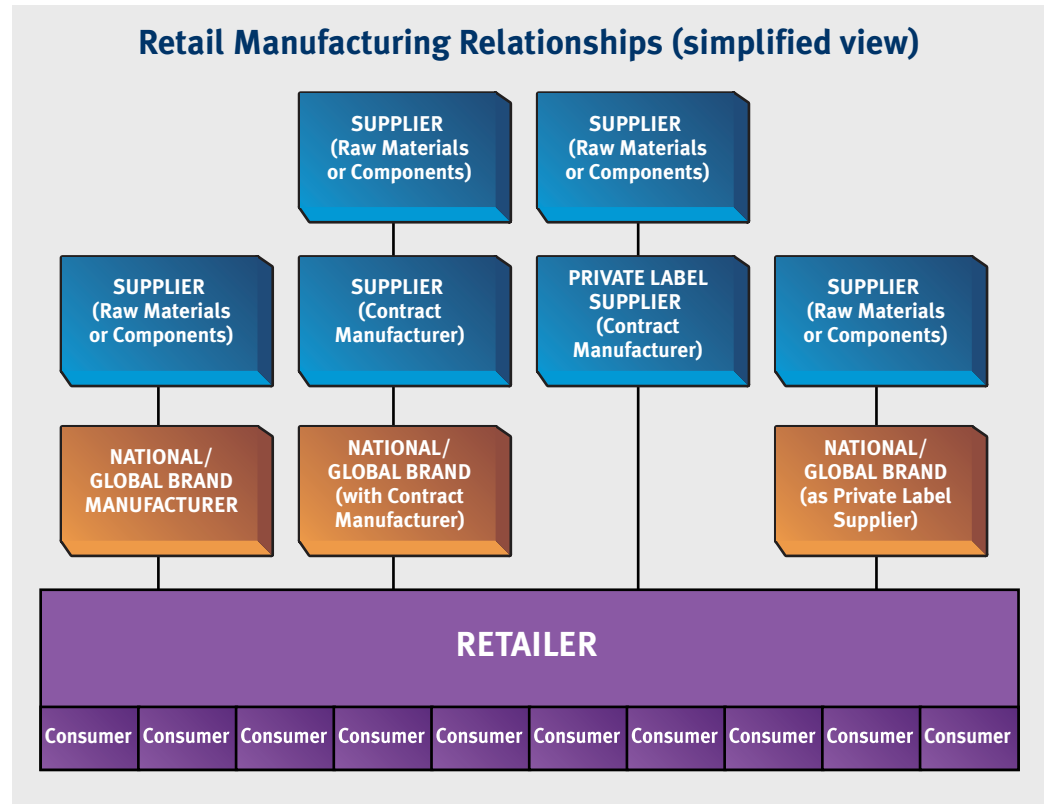


Figure 1

The lure of higher margins and consumer demand for better value has led to a recent acceleration in private label initiatives among many retailers. However, achieving higher margins on private label initiatives is not always easy, especially when sourcing from companies located in developing countries and considering the complexity of current manufacturing processes (see Figure 1). Many, if not most, new private label products are coming from such countries. This paper examines the supply chain automation challenges of retail private label initiatives.

Private Label B2B: Different from Manufacturer Brands

Managing B2B for a private label initiative can be significantly different than managing B2B for manufacturer branded products (see sidebar for term definitions). Brand owners have traditionally sheltered retailers from many of the supply chain challenges by managing

inventory buffers, performing consumer market research and orchestrating new product introductions.

In the private label scenario, retailers must take on the tasks traditionally managed by manufacturers or find a trusted contract manufacturing partner to do this. Without a trusted partner, retailers must own significantly more responsibility for demand planning, supplier selection, outbound logistics and inventory management. For inexperienced retailers the challenge of managing a large portfolio of private label merchandise can become daunting. It can require changing a culture and teaching buyers how their actions can impact the entire supply chain.

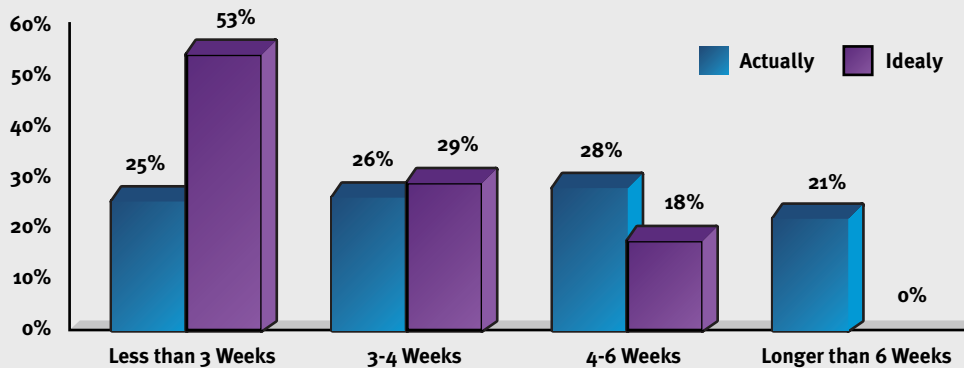
Case Study

A thriving retail chain focused on teenagers and young adults has a private label apparel initiative. Most of the products are produced in China. The company has problems meeting margin expectations. One reason is that buyers will sometimes call and change something on one of the products (e.g., a button) in an ensemble shortly before shipping time. The retailer and their supplier must then make the decision to either hold the entire order so that it ships together or ship the finished goods and expedite the final piece when it is ready. If they choose the former, the entire shipment may be late and the retailer or its supplier will have to pay for storage and will have money tied up in the delayed product. If the retailer chooses the latter approach, the other pieces of the ensemble will ship together in the same container but that container will be partially empty as the changed product is delayed to meet the buyer's request. The lone delayed piece of the ensemble must then be expedited via air freight so that all pieces can go on sale together.

Execution like this reduces margins and negatively impacts the company's carbon footprint and sustainability goals. Automating both initial orders and change orders and forcing buyers to adhere to the business rules associated with that automation can help minimize scenarios like this. This retailer is pursuing a stronger B2B program to support a planned increase in private label initiatives.

For goods sourced overseas, retailers must become much more knowledgeable about global shipping and logistics. For instance, some retailers are not experienced with export documentation and tax policies for countries from which they are sourcing goods. They must understand and then manage the export documentation, filing methods and inspection requirements or, once again, find a trusted third party, like a 3PL, to manage this for them. How a company addresses details like these can be the difference between meeting or missing margin goals. Excellence in execution is essential to achieving the margin targets that retailers desire. Automation is a critical part of excellence in supply chain execution. In fact, because of the numerous challenges associated with private label products, many retailers are failing to meet their goals when it comes to the amount of time it takes to get from factory-to-store, according to the study *PLM Squared: Product Lifecycle Management Powers Private Label Merchandise Benchmark Study: 2008* by RSR Research (see Figure 2). Even with trusted partners, private label supply chain complexity makes it important that retailers develop and maintain ongoing visibility into their supply chain execution.

Average Time it Takes for Factory Shipments to Reach Local DCs or Stores from Outbound Port



Source: RSR Research, February 2008

Supply Chain Execution

Sharing Demand Signals

For products that are routinely replenished, one key to private label success is automated information sharing between the retailer and the private label supplier. Sharing demand signals will ensure that the private label supplier has exactly the right information. Collaborative forecasting and demand planning with suppliers is critical for products that are not multi-sourced.

Private label presents unique challenges to minimizing out-of-stocks. For example, supply shortages cannot be resolved by redirecting product from another chain since the product is unique to a specific retailer. Substituting branded products will yield equivalent, if not higher sales, but perhaps impact customer satisfaction and certainly lower profit margins. Conversely, an overly optimistic sales forecast will result in excess inventory which must be borne by either the supplier or retailer. When a supplier ships more product than the retailer can sell, margins are eroded as markdowns will be required to move the excess inventory. In most scenarios these oversupply problems can be traced right back to the retailer's forecast inaccuracies. There is no blaming the supplier.

Case studies, researchers and analysts have shown that implementing B2B programs in a traditional manufacturer's brand scenario results in lower cost to serve, higher ratings on retailer scorecards and increased product sales. Similar benefits can be achieved with the use of B2B e-commerce for private label suppliers. In fact, the need for timely and accurate data in the private label scenario is so important, B2B programs with private label suppliers may be even more necessary than with national brands.

POS Data

Depending on the nature of the product, retailers may need to use Point-of-Sale (POS) data, forecasts, or orders/order changes to provide guidance to the supplier. The most useful POS data is usually from products that have long life cycles, have consistent replenishment needs and that can benefit from a vendor managed inventory model. Leveraging actual consumer demand via POS feeds give these products the best chance at achieving

SHARING DEMAND INFORMATION: PRIVATE LABEL VS. MANUFACTURER

Retailers need to determine whether the detailed demand information they share with private label suppliers is appropriate to share with manufacturer brand owners. On the one hand such information can help optimize manufacturer brand performance and significantly reduce stock outs. On the other hand, providing such information reduces the value of the retailer's private label initiative as the manufacturer brand provides stronger competition.

expected sales and margin goals. POS data must be gathered from all stores and shared in a timely manner with the supplier.

Forecasts and Orders/Order Changes

POS data is not a reliable demand signal for all products—for example, seasonal items, such as high fashion apparel, that are purchased in single ordering cycle. Long lead times challenge retailers unless products are designed and brought to market within weeks, like the model used by Zara, or are finalized in a late-stage postponement model. Retailers need to implement a forecasting process and/or deploy appropriate order/order change policies—even with late-stage postponement, and especially with long-lead time products. In either case, accurate and timely sharing of information is critical.

Sharing sales forecasts is the best technique for collaborative demand planning when the use of POS data is not recommended, and often when launching a new product that can and will benefit from POS data after launch. Forecasts enable buyers to set expectations many weeks out and then are slowly fine-tuned week-by-week until forecast levels are locked in a few weeks out. Forecasting helps suppliers plan for workforce composition, raw materials and production capacity requirements more accurately in advance and can help keep inventory levels low. Forecasting techniques have been widely adopted in other industries, such as high tech, but retailers can benefit as well. Generating and sharing forecasts by region or store can help optimize manufacturing and supply chain performance even further.

Improving Purchase Order Accuracy with Product Data Quality

Purchase orders are the predominant way in which retailers share product needs with both brand manufacturers and private label suppliers. Automated purchase orders provide an initial step for ensuring that a supplier knows what a retailer wants. However, research shows automated POs can be unreliable (see sidebar). When fully half of automated purchase orders require manual intervention on the part of the recipient, we know there is a problem with the information or method of sharing it. Purchase orders can contain inaccuracies through several means. Manufacturers have identified four recurring problems with purchase orders. They are:

1. Orders for products that the manufacturer does not manufacture or carry
2. Orders for products that are obsolete
3. Orders with prices that do not match the unit-of-measure (for example, an order for a two-pack but prices for an each)
4. Orders with promotional pricing outside of the promotional window

Frequent causes of these problems include the sharing of incorrect product data on the part of the manufacturer, keystroke entry errors on the part of the retailer and processes that are not optimized.

In order to meet expected margins in a private label initiative, the purchase order process must be more effective. Since private label initiatives often originate with the retailer, there

ORDER INFORMATION IS UNRELIABLE

In June 2008, Lora Cecere of AMR Research reported (How Well Does Your Company Take Orders?) that “While 40% of orders are transmitted electronically by B2B technologies, they are hardly hands-free processes. Instead, 50% of B2B orders are manually handled after receipt, adding over 24 hours to the order-to-cash cycle.”

should be a good chance that the retailer's data will be more accurate for the private label products than the data they have for branded manufacturers. Theoretically this will reduce the errors and thus the exception work required on the part of the supplier. If not, optimizing processes and/or implementing a master data management program focusing on product data quality may be required to ensure clean, accurate data is being used by both the retailer and the supplier.

Automate Purchase Order Changes

There are two types of orders—original purchase orders and change orders. Most retailers do not automate the change order, yet studies indicate that orders change four times after the initial purchase order is placed. Since these changes are carried out manually, retailers risk keystroke entry errors as well as the potential for either the retailer or supplier to not enter the change information into their systems at all. In fact, manual PO Changes contribute to poor perfect order performance.

Retailers should automate PO Change documents, especially for private label products. While higher margins might provide greater leeway with respect to errors in the ordering process, the delays caused by manual intervention, combined with the resulting errors, will quickly erode any margin differences between private label and manufacturer brands. Manual PO Changes lead to errors such as:

1. Production and shipment of the wrong product
2. Delivery to the wrong location
3. Delivery at the wrong time
4. Inaccurate visibility into order lifecycle and shipment track & trace

Unless the manufacturer is part of a vertically integrated retailer that owns its own manufacturing facilities, it is likely that the retailer is competing for production time with other private label or manufacturer brands. Reliable supply chain communications determines the ability of the retailer to secure appropriate production time to meet the retailer's needs. Enabling a smooth method for moving change information efficiently and in a timely manner can mean the difference between getting production time when needed, getting the right product and quantity produced, and having the order fulfilled to the retailer's satisfaction. Automating the PO Change is an important part of effective private label programs.

Logistics Visibility

There are three important areas to be considered when it comes to automating logistics information—ship notices, status updates and international trade documentation. As illustrated in Figure 2, the retailer must closely watch private label shipping because shipments sometimes take two to three times longer to reach stores than retailers initially plan for. This inconsistency can lead to stock outs unless the retailer plans appropriately. Minimize problems and enable early detection of exception situations through complete shipping and logistics document automation, along with exception notification and ongoing process visibility.

Suppliers should deliver advanced ship notices (ASN) to retailers. Products and pallets must be labeled with a bar code or RFID tag as a part of any shipping program. This information needs to be contained within the ASN, resulting in faster processing and enabling the automated receiving by the retailers. In addition to the notice from the supplier that goods have shipped, retailers should also request that transportation carriers provide regular updates on location to enable track and trace. A logistics visibility solution enables transportation managers to monitor all inbound and outbound freight within a supply chain. Furthermore, logistics visibility applications calculate estimated time of arrival, identify shipment delays and enable re-routing to satisfy changing demand patterns. Alternatively, B2B transactions can be integrated with a more robust transportation management system (TMS).

Finally, retailers new to managing a global supply chain are challenged by government regulations and adherence to customs policies. In fact, they are also a challenge for retailers that have been in the business for a long time because these regulations can change rapidly. In late 2008, the Consumer Product Safety Commission of the United States began requiring product certifications to accompany all shipments of consumer products originating both domestically and on foreign soil. These requirements were drawn up only a few months earlier and kept changing right up to the point when they became law.

The CPSC requirements are just one example of the growing number of international trade regulations. The United States instituted 10+2, Customs Trade Partnership Against Terrorism (CT-PAT), initiative and a Container Security Initiative. Various countries require advance manifests. Europe has ICS and ECS declarations. Canada requires the EICS-DFAIT entry declaration. Many countries now have stricter food import regulations. When documents are moved electronically these regulations are typically easier to track and enable faster passage through customs.

Automating the Supply Chain

Expanding Your Existing Program

These challenges are not an all inclusive list of supply chain automation requirements. Each retail sector has different requirements and business models. These are just a few of the processes that require flawless execution in order for retailers to achieve their expected margins on private label goods. So, how does a retailer address these issues?

While many retailers have mature supply chain automation and B2B programs with their manufacturer brands, they may find themselves challenged to meet the same level of performance with a more complex private label initiative. Private label sourcing introduces unique challenges due to the global nature of the supplier base. Suppliers are often located in low-cost manufacturing centers that the retailer has not done business in before. Manufacturing centers in emerging markets lack three things: 1) technologists experienced in supply chain automation, 2) effective transportation infrastructures, and 3) telecommunications and power infrastructures that can enable the automation necessary to meet performance goals.

COUNTRY-SPECIFIC DOCUMENT REQUIREMENTS

Logistics documents associated with customs and other government regulations related to shipping come to mind first when thinking of government documentation, but some countries still require manual documents. For instance, in China paper invoices must be shared and signed off on by both parties and submitted to the government for tax purposes. In India, a manufacturer with operations in two different Indian states may be able to automate transactions from one state but be legally required to handle all transactions manually in another state. Understanding and keeping up with these legal requirements is a new challenge to many retailers.

GUSI

The Global Upstream Supplier Initiative (GUSI) is a set of best practices and standards adopted for use between manufacturers and suppliers. GUSI is XML-based rather than traditional X12 or EDIFACT. Retailers that outsource their B2B will not have to worry about having to adopt GUSI or forcing their suppliers to use an EDI standard that they have no current capability of supporting. A B2B outsourcing partner will take care of the transformation, thus enabling faster integration and less time needed to start meeting margin goals.

ABOUT GXS

GXS is a leading global provider of B2B e-commerce solutions that simplify and enhance business process integration and collaboration among trading partners. Organizations worldwide, including more than 70 percent of the Fortune 500, leverage the on-demand services on GXS Trading Grid® to extend supply chain networks, optimize product launches, automate warehouse receiving, manage electronic payments and gain supply chain visibility. GXS Managed Services, GXS' B2B outsourcing solution, empowers customers with the expertise, technical infrastructure and program support to conduct B2B e-commerce with trading partners globally. Based in Gaithersburg, Md., GXS has an extensive global network and has local offices in the Americas, Europe and Asia-Pacific regions. GXS can be found on the Web at www.gxs.com.

Unfortunately, retailers cannot wait years for these infrastructures to be in place. Moreover, the nature of global sourcing has been that companies regularly change sourcing locations and suppliers to minimize production costs. Constant sourcing changes require changes to B2B integration platforms, hiring of new staff with language skills appropriate to the new country as well as learning a new culture and legal environment. The costs associated with expanding an in-house B2B program for private label can quickly erode the margins on a private label initiative as full time employees are hired to support suppliers in many different countries. In many cases, the B2B program will not scale effectively.

B2B Outsourcing

Retailers that want to benefit quickly from their global private label initiative need to consider outsourcing the B2B integration for their private label programs to a business that specializes in global supply chain automation. B2B outsourcing providers with global operations already have staff located in the right regions, employ people that speak the local language, have built out the B2B technology infrastructure, and are integrated to both the carriers and to government customs offices. Because of these factors, B2B outsourcing providers can enable a mature B2B program more quickly than an in-house initiative.

Freed from having to build out a practice of people, process and technology and then from constantly porting it from country to country, retailers can focus on finding reliable manufacturing partners and defining and sourcing the right products. B2B outsourcing can accelerate the ROI from supply chain automation programs by offering margin contributions within months of signing a service contract rather than waiting for several years until a software package is fully deployed. When a change in suppliers is needed, the B2B infrastructure will not change. The retailer's staff will have the same view into the order lifecycle, the same alerts from the track & trace visibility solution and the same accurate sharing of information from demand signal to payment with the new supplier as they had with the old. Outsourcing offers retailers not only reduced risk, but guidance from an experienced partner for a predictable monthly cost.

In short, B2B outsourcing will provide the mature infrastructure a retailer needs when they need it. B2B outsourcing eliminates the need to purchase software. It eliminates waiting for an infrastructure to be built. It eliminates the need to find and hire a staff. Most of all, it eliminates the concerns with B2B inflexibility since a global B2B outsourcing partner provides safeguards against business, regional, political and other changes that might require moving operations quickly. A good B2B outsourcing partner already has operations where your suppliers are today, and where they will be tomorrow.

**NORTH AMERICA AND
GLOBAL HEADQUARTERS**

100 Edison Park Drive
Gaithersburg, MD 20878
U.S.A.

+1-800-560-4347 t
+1-301-340-4000 t
+1-301-340-5299 f
www.gxs.com

**EUROPE, MIDDLE
EAST AND AFRICA**

18 Station Road
Sunbury-on-Thames
Middlesex TW16 6SU
United Kingdom

+44 (0)1932 776047 t
+44 (0)1932 776216 f
www.gxs.eu

ASIA PACIFIC

Room 1609-10
16/F China Resources Building
26 Harbour Road, Wanchai
Hong Kong

+852 2884-6088 t
+852 2513-0650 f
www.gxs.asia.com



About GXS

GXS is a leading global provider of B2B e-commerce solutions that simplify and enhance business process integration and collaboration among trading partners. Organizations worldwide, including more than 70 percent of the Fortune 500, leverage the on-demand services on GXS Trading Grid® to extend supply chain networks, optimize product launches, automate warehouse receiving, manage electronic payments and gain supply chain visibility. GXS Managed Services, GXS' B2B outsourcing solution, empowers customers with the expertise, technical infrastructure and program support to conduct B2B e-commerce with trading partners globally. Based in Gaithersburg, Md., GXS has an extensive global network and has local offices in the Americas, Europe and Asia-Pacific regions. GXS can be found on the Web at www.gxs.com.