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The Marketing and Supply Chain Collaboration

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The words of the day in China are marketing and branding. Everywhere you look, small business owners and farmers are selling advertising space to companies. Travel from Shanghai Pu Dong Airport to central Xu Jia Hui, and you see billboard after billboard of two-dimensional representations showing the spirit of a company's brand. Stop for a minute to consider the targeting though. This is the first piece.

In today's China, Phil Kotler is an established name in the lexicon of everyone in business from the companies CEO to business school students. Competition is fierce in most industries, so you have to establish your identity. Instead of Consume, *Consume*, CONSUME! the philosophy of Pantaloon CEO, Kishore Biyani, companies prefer Promote, *Promote*, PROMOTE!! But what is missing here? In the manufacturing center of the world, where are Ford Whitman Harris, W. Alderson, and Eli Goldratt? How do companies really build there brand image? What is being built if your customer still can't find the product they are looking for or the image doesn't follow the marketing message?

It reminds me of James B. Twitchell's Twenty Ads that Shook the World: The Century's Most Groundbreaking Advertising and How It Changed Us All[1]. In chapter 2, Twitchell discusses Lydia E. Pinkham's Vegetable Compound, titling the chapter, “Personalizing the Corporate Face”. Twitchell describes the medicinal rage of the 1920's and 30's, and Pinkham's entry into marketing by giving the product a face people could trust, her own. Competitive products were mass produced and marketed as curing “all that ails you”, but the reality for many products was something quite different. Not only were many of the products a hoax, but it created rampant distrust for over the counter medicines and negatively impacted the entire industry. This gave Pinkham's product appeal and allowed the customer to better connect with the actual proprietor of the product. This was one way to differentiate the product in a highly competitive environment.

As we know everything moves faster in China. What took 50 plus years in the US to develop into modern marketing now happens in a blink of an eye. Growth is more rapid, competition more fierce, and so what was once Lao Gan Ma's Do Je not long ago, is now Haier and MengNiu's rapid ascension into 21st century marketing. The two parallels seem to have worked thus far, but as for long-lasting, how many people can truly say they have heard of Pinkham's Vegetable Compound.

So today I sit and wonder what Chinese brands are we most likely to see in the future? How are these brands adapting to market changes today? How do other histories of brand building reflect a more complete picture of how marketing and supply chains collaborate to create effective brand development?

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An Icon of Brand Development

Think of Coca-Cola, a brand and distribution network that spans the globe. Could we live without it? Maybe some could, maybe some would go into an induced glucose derivation comatose. The fact is Coca-Cola is almost everywhere and notably has been for nearly the past 80 years. Sure, the marketing is there even when we don't want it, but importantly the product is there when we do. This creates turnover and revenue.

If we take a look at Coke's history we see an important phenomenon. Going back through historical annual reports, the earliest being 1921, The Coca-Cola Company focuses on three key areas, branding, marketing and the infantile stages of supply chain operations.

The annual report discusses legal cases involving the trademarked name and dispensing of Coca-Cola products at soda fountains when requested, instead of other products. If someone wanted Coca-Cola, the company ensured that even at the point of sale, the customer was receiving exactly what they asked for. This meant protecting the customer, protecting what the company believed in, and most importantly, protecting the brand and reputation.

From the outset, The Coca-Cola Company saw their product as a global brand and marketed it as such. At this point, the company had already begun to outsource production and distribution to Canada, Cuba and France, establishing their product in new markets while stating, “Knowing no season, thirst knows no restriction of latitude or longitude.”[2] By 1928, Coca-Cola was marketed and available in 76 countries around the world. Their marketing encompassed the globe even back then, and the company projected their images on over 20,000 painted walls and bulletins.[3]

What I find most interesting however, is The Coca-Cola Company's core focus in expanding their market share. Coca-Cola's states in 1921,

> Coca-Cola's true place in the industry cannot be appreciated without knowledge of its manufacturing, distribution and sales facilities:
>
> Fourteen regional factories. Ten divisional warehouses. Twelve hundred bottlers. Two thousand jobbers. One hundred and fifteen thousand fountain dealers. One hundred and fifty thousand bottle dealers.
>
> These are knitted into an organization with the purpose of joining the selling force of all into a single selling force behind every ounce of Coca-Cola that is manufactured.[4]

Notice the last line, “These are knitted into an organization with the purpose of joining the selling force of all into a single selling force behind every ounce of Coca-Cola that is manufactured.” Reflect on this for a moment. The company stood behind its brand, behind its

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product, and worked to coordinate the entire flow from raw materials of sugar and pure carbonated water to the glass or bottle you drink. It was about the process of delivering the product that meant the most; this would build the brand, and would ultimately generate revenues.

Today we call this the *supply chain*. Consider bottling at the point of distribution close to the customer. This has evolved into to what the industry knows as postponement. Consider the regional factory network supplying 115,000 fountain dealers and 150,000 bottle dealers. Sounds like the manufacturer chooses capacity. Include Coca-Cola's specialized chemical testing in the 1920's, today termed quality control, and we begin to see the establishment of brand development through supply chains *and* marketing.

So how do marketing and supply chains work together today? We will consider Procurement, Manufacturer Chooses Capacity, and Quality Control as just three examples of how supply chains can assist brand expansion and compliment product marketing.

Postponement

Postponement is defined in many different terminologies by supply chain contributors as early as W. Alderson in the 1950's. The basic idea is that if a specific identifying process for a given product is put at the end of product manufacturing, better efficiencies can be created. Hewlett-Packard is a classic example.

Hewlett-Packard (HP) is a well known producer of color printers, which has manufacturing facilities in Vancouver, Canada, and distribution centers in North American, Europe and Asia. The product lead times prior to the supply chain reorganization were roughly one month to Europe and Asia. At this time, HP used a make-to-stock process. As the demand requirements were uncertain, this equated to inventory holding costs of a month in transit, plus the safety stock holding costs for product kept on hand to ensure demand was satisfied.

The printers HP shipped had a few different requirement based on customer needs for a specific region. Power supplies were different based on the voltage requirements of a specific country as were the outlet plugs. Instruction manuals had to be printed and matched for particular regional languages as well as product labeling. In the old model, HP would manufacture the finished product for each regional customer and ship through the appropriate distribution center.[5] The following is a simply supply chain process flow map (Table1).

What HP realized however is that these small differences could be added at the end of the process, dependent on the customers needs. A standardized printer would then be manufactured in Canada, and a plug-in power supply, local language manuals, and final packaging would all take place at the local distribution center. This change to a make-to-order process was estimated to reduce HP's inventory level by 18% as well as save the company millions of dollars, all while maintaining the same level of service.[6] When HP later

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Table1

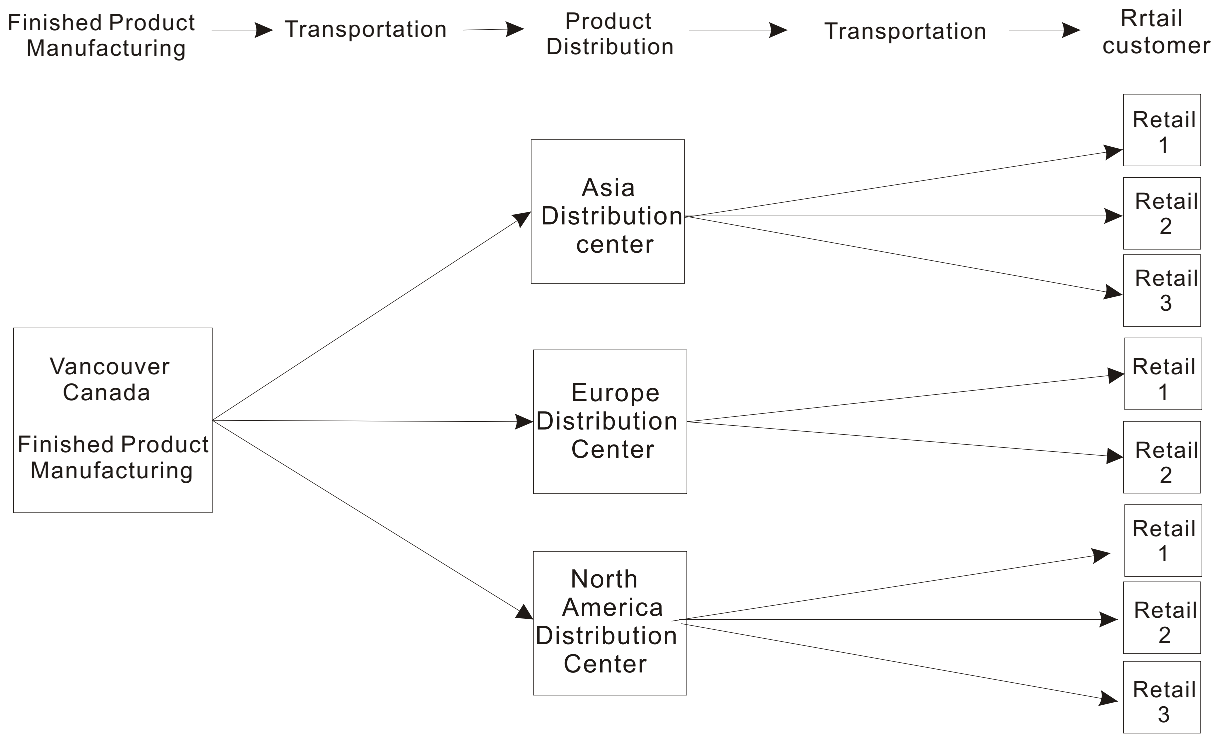
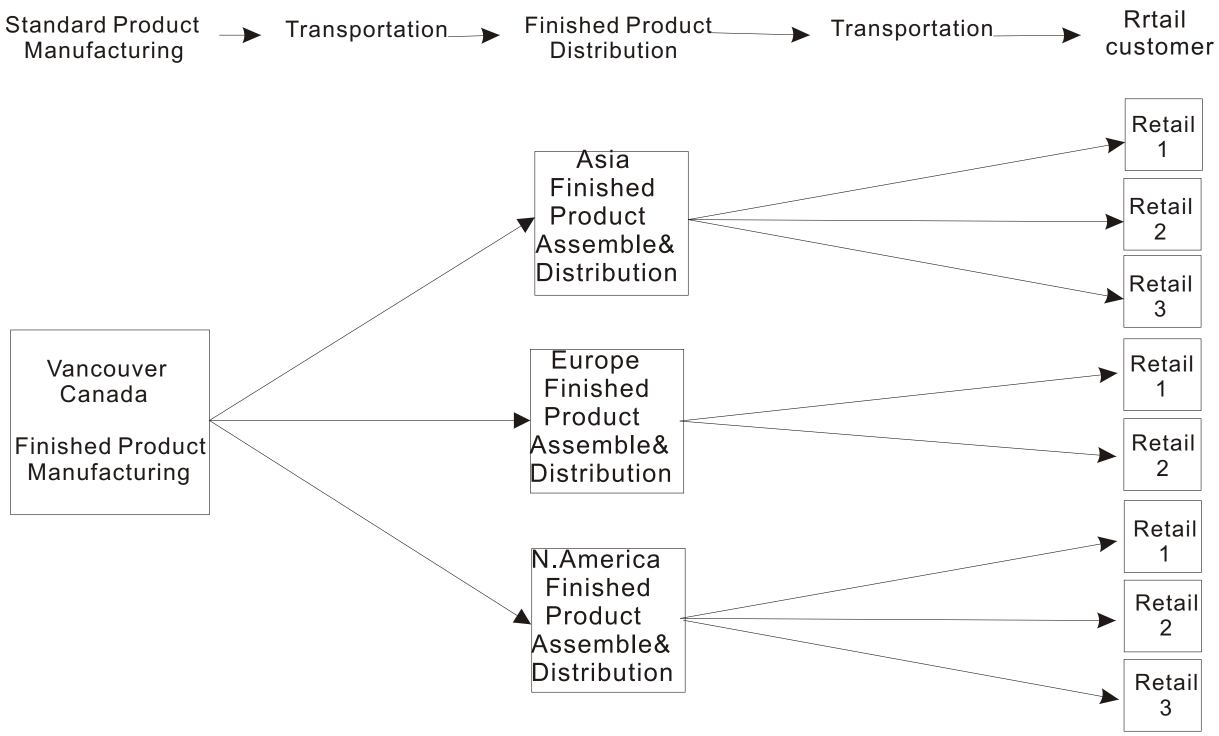


Table2



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expanded this concept to packaging, it is estimated that this strategy of postponement saved the company $3 million per month(Table2).[7]

When we consider these changes, think about the value added to a customer in having the exact product they desire. This is where marketing and advertising begin to play a crucial role in emphasizing the strengths of a companies brand image. In the old model, there are a large number of potential problems that could negatively impact the brand. The wrong language instruction guide could potentially be included, or the wrong power supply, meaning the product doesn't work. With make-to-order you not only receive the exact product you request, but it is also tailored to your individual requirements. This increases customer satisfaction, trust in your brand, and mirrors your marketing strategy. When you consider HP's 2006 global marketing campaign “The Computer is Personal Again”[8] the company must ensure they get these details right to show the customer how their product fits an individuals personal needs.

At the same time, procurement allows HP to better fulfill the customer's orders at the point of sale. By moving these final processes to the end, the transition from standardized product and region specific items to packaging and shipping is quite seamless if the customers order has already arrived. This reorganization allows HP to avoid stock outs better, whereby ensuring the customer receives the product they purchased on the expected date. In the old model, if problems with inventory arise, HP can do very little to ensure this.

If HP's marketing is tied to on-time service, dependability, or reliability, again these factors are importantly reinforced by the developments HP made in their supply chain. Even if they are not part of their brand image, these are all attributes ever company should strive for.

Manufacturer Chooses Capacity

The theory behind the manufacturer choosing capacity is rooted in examples where the demand from the retailer is known or relatively predictable. As Marshall L. Fisher terms it in his widely regarded article, “What is the right supply chain for your product?”, these are *Functional Products*, staple products that satisfy basic needs such as “thirst” with Coca-Cola.

In this scenario, the manufacturer and retailer are allowed a very low margin for error as it relates to the stock outs. As these products are essential to the everyday needs of an end customer, volume is the key driver of profit as margins are typically low. With this type of product every attempt to mirror customer demand should be made.

This may seem like a very basic idea, however many companies have faced challenges in this area. The problem lies in the coordinated effort of understanding how the demand map translates to material suppliers. If the manufacturer doesn't fully understand the pattern of demand a couple of scenarios can occur. First, the manufacturer may miss time ordering raw materials, whereby supplying the finished product late or even missing demand all together.

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This equals lost revenues from sales and certainly impacts customer satisfaction. Secondly, products could be oversupplied to prepare for demand spikes. This means higher inventory holding costs for either the manufacturer or the retailer.

Clearly, this shows how marketing and supply chains can more closely integrate themselves. By 1928, the 41 year history of Coca-Cola had created a wealth of information and data relating to new market entry and established market demand. What were the first six months of production like for a similar location, similar population? How many locations are we distributed at and what can we expect in terms of demand growth? By making these calculated predictions based on historic data and point-of-sale information, Coca-Cola had after all over 700,000 people interacting with customers on a daily basis, the company was able to quantify this information to match demand expectations.

With direct marketing they used a similar strategy, which put most advertising at the point-of-sale. The companies 20,000 walls were generally on the sides of the soda fountain stores where Coca-Cola could be purchased. The company also used other media such as the iconic metal signs and calendars to get even closer to the customer. Imagine people buying your advertising to display in their homes. How much closer can you get

This comes back to the road signs and billboard outside Shanghai Pu Dong International Airport. If a brands image is simply on display for the millions of passengers leaving the airport, how likely is it first they will notice the image, and second, more importantly, how likely are they to remember the image and message when they are thinking about buying your product? At the same time, is the product easily accessible, easy to find and there when a customer wants it? This is how marketing and supply chains can truly collaborate more effectively.

Looking more closely at the branding campaign of Coca-Cola, we can see how the supply chain and marketing efforts had to be coordinated to ensure success. With the "Thirst Knows No Season" tagline of the 1920's, Coca-Cola could not simply react to seasonal demand fluctuations or regional differentiation based on climate. They had to smooth these demand spikes in order to maintain the integrity of the product they were promoting. To really live behind their brand they had to both supply Coca-Cola and promote that thirst can happen at any time. By combining the efforts of their marketing and supply chain, Coca-Cola developed and nationalized the soda fountain experience in the US. It was the establishment of this retail channel that the company was forced to match customer demand by producing, distributing and providing Coca-Cola where it was desired, when it was desired.

Quality Control

Quality control is a common process more recent to supply chain management, but this sometimes is foregone when volume and more importantly margins on volume are the main

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driver. As an integral part of brand development, this area cannot be taken seriously enough.

Quality control is generally only looked at in a companies own specific operations. If the company is a manufacturer of automobiles for example, the company will do testing on the finished automobile before the product is sent to the customer. Does it run? Do the brakes respond effectively? Does the internal fuel system seem to be working properly? Does the car meet emissions requirements? But think for a minute of the quality of every component part in the final product. What if one component does not meet these requirements? Consider the example of the Ford Explorer and Firestone tires.

In May 2000, the Ford Motor Company and Firestone Tire, a division of the Bridgestone Americas Holding, Inc. were notified by the US government of an investigation into the potential of tire defects related to Firestone produced products. It was estimated that a number of accidents had resulted due to poor tires on the Ford Explorer model.

As a result, Ford Explorers equipped with the Firestone tires were returned to the company, and nearly 44 million Firestone tires were recalled. Sales dropped dramatically for the Explorer model and the brand image of both companies was severely tainted.

Product quality is an area of the supply chain that must be looked at closely between all companies involved. Questions surrounding tire defects meant a loss of business from Ford, large unnecessary financial and time expenditures in legal battles, as well as managing the recalled inventory. These add up to millions of dollars in losses for both companies that could have simply been prevented with better quality control implementation.

When it comes back to marketing, we'll reflect on product attributes that all customers require, dependability, quality, and in this case safety. If Ford promotes their company with these characteristics in their marketing, than any incident going against these ideas will make many potential customers look to other options. Quality factors impact trust, the single most important connection between a company and their customers. Here the negative press and product safety speculations hurt the brand image, by creating a disconnect between the message and the perceived reality. Ensuring that all supplier products are up to the same standard of quality is vital.

When we look at fast moving consumer goods (FMCG's), like food, health products, clothing, etc. product quality is essential to maintaining repeat sales. With increased competition for shelf space, customers are looking for the product that they can depend on. If a consumer is not fully satisfied with a company's product the first time or hears something negative, the likelihood they will return gets lower as product choice increases.

Product quality can quickly go against your marketing campaign if not watched closely and regulated extensively. One small error can cost the company millions in lost revenue, and many companies have failed purely because they didn't adhere to specified quality control.

Aligning your marketing campaign and supply chain seem to be fundamental missteps of

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many companies. Although focusing on one area more than another may seem like a calculated investment, it is the symmetric development of both that really drives home the brand of a company. Real growth potential occurs when a balance is reached. The supply chain provides the product where it is demanded, and the marketing emanates the essence of the brand. If one moves without the other however, a discontinuity can occur putting the whole system out of balance.

The key investment a company can make is creating a collaborative effort between both their marketing and supply chain process. Think of the tremendous success Apple has had with the iPod worldwide. Other companies entered the market first, and now competition is fierce, but still Apple owns roughly 87% of the market. At the outset, the company had to ramp up production to meet the overwhelming demand. At the same time, the company had to develop its distribution and interface for downloading songs rapidly. As this took place and required production was matching retailer demand, the marketing component developed to project the hip and fun nature of the product. This is when sales really sky rocketed and the market position for iPod was truly realized. It was this concerted effort to mirror the marketing and supply chain development that gave the customer what they wanted as perceived in the marketing, when they wanted as provided by the supply chain.

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