

# CATEGORY MANAGEMENT LEARNING FORUM

TOPIC: PRODUCT SUPPLY CHAIN

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Every category management, sales and marketing professional should have a strong understanding of the product supply chain – not just one piece of the supply chain, but total supply chain management. A recent study by the Food Business Forum (CIES) polled senior management of retailer and supplier organizations. The results showed that ‘Supply Chain’ is in the ‘Top 5’ issues on retailer’s minds, but it did not make the ‘Top 5’ for supplier’s top management. With lean operating margins in retail, small improvements in Supply Chain can mean big gains in profitability for retailers, driven by their opportunity to return total cost of goods sold to deliver higher profits for the organization. Understanding supply chain management is fundamental to a supplier’s success with a retailer.



Successful supply chain management requires that three dimensions are understood and balanced: availability, inventory and cost. Managing these three dimensions efficiently can result in supply chains that improve business performance and drive competitive advantage. Availability relates to the # of items carried and required service levels. Inventory ties up dollars that can be invested elsewhere in the organization. Supply chain operating costs are under pressure today from things like rising freight prices, more global customers, and technology upgrades – to name a few. Controlling costs requires that organizations focus on the metrics that drive total supply chain costs within their organizations. The strategy is to find the right balance between these three dimensions.

The following diagram captures the basic supply chain management process. Based on this diagram, who is the customer, and who is the supplier within the process?



That really depends on which part of the supply chain that you are looking at. The supplier and customer change in each step of the supply chain. The consumer packaged goods company is the customer of the raw material producers. Next, the consumer packaged goods company becomes the supplier to the wholesaler or retail headquarters, who is the customer. This is where the category manager purchases the products from the consumer packaged goods company from the retail headquarters. When the products are shipped to stores, the distributor or warehouse is the supplier, and the customer is the retail store. And finally, the retail store becomes the supplier to the consumer, who purchases the product.

Supply chain activities turn natural resources, raw materials and components into a finished product that is delivered to the end customer. It includes all of the activities associated with each of these different steps along the way. Each of the suppliers and customers at each point in the process are concerned about meeting supply demands, while controlling inventory levels. Any issues associated with meeting supply demands or running out of inventory have an impact on the total supply chain.



Suppliers need to define their supply chain strategies based on the requirements of their key customers. Are they looking for a responsive or efficient product supply chain? What type of product supply chain does your organization have?

Finally, it’s important to understand how information, product and finances flow across the supply chain. There are processes that relate to each of these flows, with requirements and responsibilities for all of the players within the supply chain. This includes everything from forecasting to inventory to transportation, reverse logistics and accounting.

If you like this tip, you may be interested in CMKG’s related, accredited \$99 eLearning courses: “[Retailer Economics and the Product Supply Chain](#)” or “[Strategic Supply Chain Management](#)”. These two courses will give you a deeper understanding of retail math, and the product supply chain process from start to finish.