Lost Profits in the Marketing Supply Chain

Logistics Strategies to Reduce Shipping and Warehousing Costs for Print and Promotional Materials

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What is the marketing supply chain and why is it important to you and your business?

Simply put, your supply chain is the movement of all goods – from raw materials to finished creative – required to get print and promotional materials to the end customer. Most ad agency executives and corporate marketers don't focus on what they consider the "necessary evil" of shipping and warehousing, and therefore overspend by 15% – 30%. But by following sound logistics management practices, marketers can reclaim these lost profits and devote an increased share of their marketing budget to driving revenue.

We live in the era of the supply chain. Companies like Wal-Mart and Dell are admired not because they have the best products or marketing, but because they excel at managing the flow of materials and information from the source of supply to the end user.

For most corporate marketers and ad agency managers, however, issues like shipping, inventory management, and fulfillment are remote concepts. These top-line driven people view such functions as a necessary evil. As a result, their companies lack basic logistics management disciplines and spend 15% - 30% more than necessary. When dealing with a marketing budget of $100 million, for example, such disciplines could result in about $2 million in savings. Ignoring such savings in the field of manufacturing would be unthinkable, but in the right-brain world of marketing it is more the rule than the exception.

Writing in the Wall Street Journal, John Quelch, a professor of marketing at Harvard Business School, states that marketers can dream up campaigns to drive sales but show little interest in the balance sheet impact of their overall promotional programs. "Today's boards don't need chief marketing officers who have creative flair but no financial discipline," he explains. "They need ambidextrous marketers who offer both."

While shipping and warehousing costs represent a relatively small percentage of an overall marketing budget, any savings drop right to the bottom line. Marketers don't need a logistics degree to tap into these savings. A logistics company that understands the marketing supply chain can help ad agencies and their clients streamline shipping and fulfillment processes to generate immediate savings.

This savings opportunity can be found in two distinct areas:

- The low-hanging fruit – simple steps to save time and money in transportation and warehousing;
- Development of a collaborative process among corporate marketers, agencies, printers, premium suppliers and shipping companies for managing the flow of print and promotional materials through the supply chain.

Agencies and corporate marketers should start by examining current shipping and warehousing practices for both above- and below-the-line materials.

Apply Basic Freight Management Strategies to Control Shipping Costs for Above-the-Line Materials

Traffic departments within manufacturing companies use proven strategies to squeeze every last penny of savings from the company's freight budget. These same strategies can be employed to reduce costs when shipping ads, billboards and newspaper inserts. Here are a few key methods used to achieve freight savings:

Choose the right mode. Not every delivery needs to be overnight. When last-minute creative changes delay a production process, the inclination is to deliver it as soon as possible to pre-press, printer, posting house or other downstream location. An experienced shipping partner will work with agencies to eliminate these unnecessary and expensive rush shipments. Client or agency management should always ask for alternate shipping options that are more economical.

The strategy of "mode shifting" also applies to non-urgent shipments.

CASE STUDY: The advertising agency of a Fortune 100 telecommunications firm struggled to economically deliver its client's newspaper inserts to hundreds of newspapers across the country. The agency's printer arranged to have the inserts sent to a nearby trucking firm's depot, where the inserts were then split into hundreds of less-than-truckload shipments going to each of the various newspapers.

After seeing its first freight bill, the telecomm firm turned to its freight forwarder for help. The freight forwarder promptly set up shop at the printer and eliminated the initial truckload leg by consolidating freight right at the printer, which cut almost a week off shipping lead time. In addition, the freight forwarder shifted the freight to 200 53-foot trailers and fully loaded each truck with inserts for multiple newspapers in the same region. Shifting modes from "less than truckload" to "full truckload" cut the company's freight cost by 40 percent, or $150,000.

Consolidate. Agencies often use multiple suppliers to create materials that ship to the same destination. Typically, each supplier manages its deliveries and charges the advertiser. Alternatively, the advertiser could assign a third-party freight forwarder to coordinate and consolidate these shipments. Consolidation offers savings potential up to 20 percent.

Leverage freight volumes. Agencies and corporate marketers typically don't aggregate total transportation spending across multiple clients or brand projects. Instead, they allow suppliers to manage shipping for them. By directing all vendors to use a single shipping partner, marketers can take advantage of price reductions based on freight volume.

Boost productivity through better visibility. Improved logistics management can also save time, which translates into labor savings. Because shipping responsibilities are often decentralized, agencies and corporate marketers can spend hours making phone calls or sending emails to printers, pre-press shops, production houses, binderies and other suppliers – all to

find out if a shipment arrived in time to meet campaign deadlines. Today, there's a better way. New technology makes it possible to receive an electronic feed from carriers and post the status of shipments on the web. Marketers can search by a range of criteria, such as job or campaign number, and get an answer in seconds. And they can receive automatic emails as soon as proof-of-delivery (P.O.D) information is posted.

CASE STUDY: For the print production department of a financial services firm, tracking shipment status for hundreds of daily print jobs was a time-consuming nightmare that involved checking multiple carrier systems and creating manual reports. The company consolidated freight management with a single partner and now receives a daily report on the status of every shipment. The company also receives alerts as proof-of-delivery confirmations are posted, saving hours of unproductive administrative time.
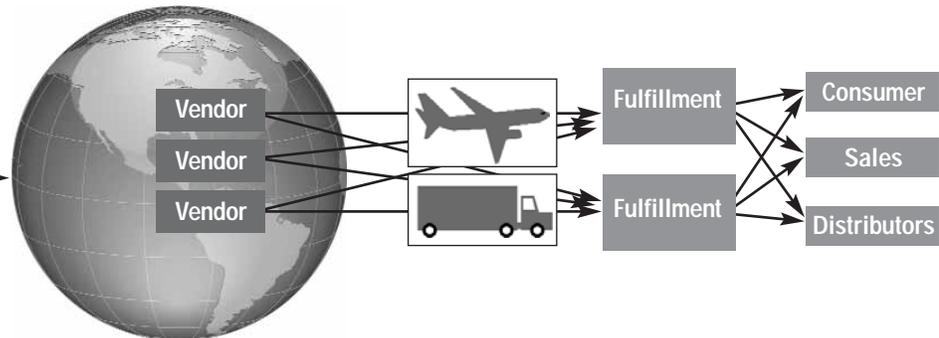
The Marketing Supply Chain

Inefficient shipping practices inflate costs to bring "above the line" creative pieces to market. Among the cost saving opportunities: reduce unnecessary rush shipments; leverage volume discounts by centralizing freight management; consolidate multiple shipments going to the same destination.
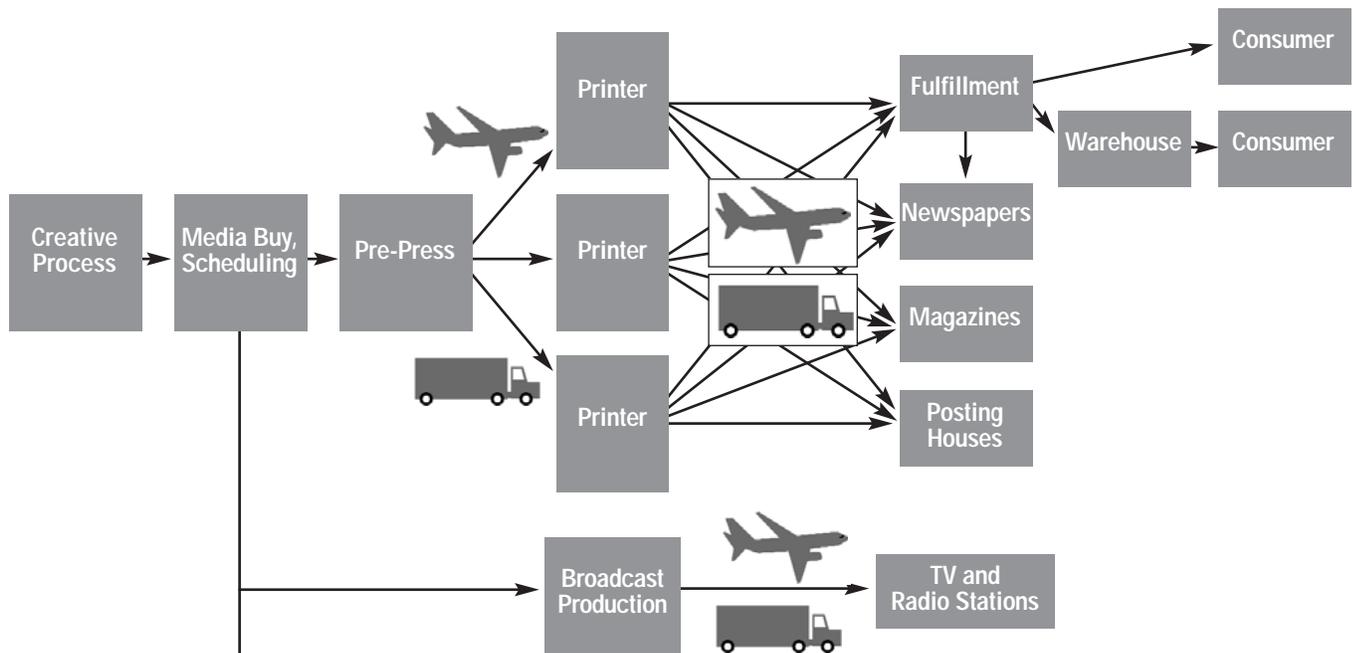
Disciplined logistics management practices for "below the line" items can slash freight and warehousing costs. Steps include: shift purchase terms on premium items to prevent suppliers from inflating shipping costs; maintain accurate inventories to prevent over-/under-supply; improve planning on kitting projects to cut labor.

To accomplish cost-saving goals marketers can employ an in-house transportation professional, but many agencies and marketing organizations find it more cost-effective to outsource this function to a freight forwarder. Freight forwarders book loads, track the status of freight movements, and manage all communications with cargo carriers and delivery agents. Marketers that use a freight forwarder can leverage that provider's freight management expertise without carrying the cost on their books. By outsourcing logistics management, marketers also access sophisticated systems and IT resources that can save hundreds of thousands of dollars in hardware, software and consulting fees.

Reign in Logistics Spending on Below-The-Line Items

Shipping and logistics management for below-the-line material like premium items and promotional literature is another area that offers savings potential. Typically, multiple brand teams choose their own suppliers (often for the same commodity) and shipping is left to the supplier. When suppliers handle shipping, goods are purchased on "pre-paid" terms, meaning that freight expense is built into the product's cost. While brand teams are glad to offload the headache of shipment coordination, particularly if goods are coming from overseas, what they don't know is that their point-of-sale premium vendor may be using transportation as a profit center. The vendor may receive a steep freight discount for shipping large volumes for multiple clients but not pass this savings on to customers. By shifting payment terms to "collect", marketers control the freight earlier in the chain and can drive cost and service improvements.

Another costly consequence of poor logistics coordination for below-the-line items is the lack of controls to assure that what was ordered is what was delivered. In manufacturing supply chains, receipts typically are checked against a purchase order and discrepancies are addressed on the spot. Unfortunately, this paperwork trail is not the rule in marketing supply chains and marketers pay the price for this lack of a disciplined, systems-based process.

CASE STUDY: An entertainment company ordered 2500 novelty items for a rush press kit job. A shipment was delivered to the fulfillment house with no packing slip or purchase order, so no verification could be done at receipt. The warehouse ran out of the items during the assembly job and the company was unable to ship to a large portion of its press list. With the proper paper trail, the shortage could have been quickly identified and additional items could have been shipped to the fulfillment house in time to meet the deadline.

FedEx and UPS: Myth and Reality

Ad agencies and corporate marketers generally believe that large parcel companies will give them the best service and the best deal. FedEx and UPS are huge companies with advanced freight management capabilities, but for certain shipments they may not be the fastest, cheapest, or smartest choice. For instance:

- These parcel companies charge extra for packages like rolls and tubes that fall outside the standard dimensions they impose on customers.
- They change rate tariffs to higher dollar amounts per pound when customers fail to hit agreed upon volume thresholds. As a result, the cost that ad agencies post to job numbers can be considerably lower than the actual freight charge.
- They are not the most economical choice for shipments over 100 pounds.
- They are not the most reliable carriers for urgent shipments. Because FedEx and UPS operate hub and spoke systems, critical packages can get hung up in a sort center and the shipper has little ability to retrieve the package until it is processed through the system.
- When a critical issue needs to be addressed, it is difficult to get an actual person on the phone.

Shipping responsibilities in advertising and marketing firms are often delegated to media production professionals with limited freight management experience – people who are busy with other responsibilities. They find it "safer" and easier to go with a known brand like FedEx and UPS.

Shipping functions that are difficult for multiple brand teams to coordinate are actually routine transportation management tasks for an experienced freight management partner that oversees all freight activity.

Create a More Disciplined Process for Product Fulfillment

The last stage of a marketing supply chain can require the assignment of a dedicated fulfillment warehouse to manage assembly of press kits, employee welcome packets, and other marketing kits. This provides a central point of quality control and distribution for the materials. Too often company profits are wasted in this area due to the lack of process and inventory management disciplines. Here are some common problems:

Many players, but no one in charge. Without clear direction and communication, fulfillment projects can easily go awry. One rush kitting project for a large corporation involved no less than 10 parties: corporate marketing, the brand manager, corporate purchasing, two printers, and multiple suppliers for items like CDs and giveaways. Input to the fulfillment house came from multiple people, resulting in mistakes, added labor hours and ultimately higher costs.

Poor inventory management. Marketers are not in the inventory management business and often learn they are out of stock on a product when they can't fill an order. For instance, a marketer might know she has three boxes of green shirts, each a different size and shade of green. But what happens when someone orders "green shirts" to hand out at a trade show? It is difficult to manage inventory levels when product definitions are so imprecise.

The solution is to assign each item of inventory an SKU (stock keeping unit) number and a detailed item description. A warehouse management system can establish this SKU structure and make the information available via the web for proper order entry. The system can also record min/max levels for each unit (SKU) and automatically alert responsible parties when inventory falls below minimum levels.

Retaining obsolete inventory. Products like high-tech components that become obsolete are regularly written off and discarded; however, marketers tend to hold onto print and promotional materials, increasing warehouse costs. For example, sales literature is regularly updated and restocked but often the warehouse is not told to discard the outdated version. It is not unusual for marketers to expand to new and costly warehouse space, even though the existing warehouse is "full" with old, unused literature and premium items.

No paperwork. Less paper is usually a good thing. Still, accurate warehousing and fulfillment requires certain paper-based steps to assure accuracy. Typically, items are ordered with a purchase order. When these items arrive at a warehouse a packing slip of shipment contents is checked against the P.O. to make sure what was ordered is what was received. For kitting projects, a bill of material spells out the kit required, volumes, instructions on doing the job, and deadline dates. Problems occur when phone calls and emails between multiple parties take the place of a disciplined paper trail.

Addressing these fulfillment problems can cut 20 percent from warehousing and inventory costs. To mine these savings, logistics expertise and systems are required. Rather than invest in the people and systems to handle logistics internally, many companies outsource coordination of kitting and distribution to an experienced fulfillment partner (See sidebar). In addition to providing the systems and infrastructure, the right logistics partner can act as an extension of the client's marketing department, installing process disciplines and coordinating multiple vendors on the client's behalf.

Web-based inventory management systems help liquor company save millions in inventory and logistics costs

A global distributor of wines and spirits lacked adequate systems to effectively manage its point-of-sale inventory in the U.S. As a result, some items were frequently out of stock while others collected dust in the warehouse. The company asked its logistics partner to develop a customized solution to minimize inventory while still meeting the needs of sales staff and distributors for print and promotional items. The partner installed a web-based inventory management system that allows salespeople and customers to view images of product, place orders, and track shipments – all online. The system is even able to track allotted inventory by region or salesperson, assuring orders do not exceed allotted quantity. This "web store" reduced standing inventory in regional storage lock boxes by 95% and provided an overall supply chain savings in the millions.

Maximum Savings Requires Collaboration

Today's marketing supply chains include a variety of ad agencies, clients, pre-press shops, printers, warehouses, and product suppliers. Often these parties act independently, despite the fact that work is done on behalf of a single client. The most efficient supply chains are those in which all parties collaborate to speed the flow of goods through the chain at the least possible cost.

CASE STUDY: For its national out-of-home marketing program, a global leader in premium spirits and wine distribution went from dozens of vendors to one prime vendor each for printing, pre-press, and warehousing and transportation. These three partners meet weekly to collaborate on processes that will achieve the best service and cost advantage for the client. Inventory is managed on the logistics partner's warehouse management system. All parties, including the brand manager, have web access to inventory levels for all items in storage.

Improved logistics management will never be the profit engine for marketing that it has become for manufacturing supply chains. But today's advertising agencies and corporate marketers are under more pressure than ever to control costs. By borrowing proven logistics management practices from their manufacturing colleagues, marketers can reduce transportation and warehousing costs by 15% - 30% and devote more of their marketing budget to driving revenue, where it belongs. ■

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