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Crispin Mair

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Following our report 'How has the current economic climate prompted consumer companies to regain control of the supply chain?' we caught up with Crimson & Co Director, Crispin Mair, to talk about some of the latest developments in supply chain practise in the FMCG industry, as well as his plans for Crimson & Co, as it enters its second decade in business.

Crimson & Co is celebrating its tenth anniversary this year? Tell us why you chose to set up the company?

If you go back 10 years, myself and two colleagues were working for IBM Global Business Services, following the sale of PwC's consulting business to IBM, in 2002. We had come from an operational strategy and performance improvement background, but were now working for what felt like a marketing and sales spearhead for IT services. We increasingly felt that we had moved away from providing independent and impartial advice. We weren't comfortable with the integrity of that consulting model, nor were we particularly enjoying the challenge, so we decided to set up a consulting brand that stood for our values and was 100% focused on the client. We spent a long time working on those values, as well as recruiting people who would embody them, centred on a moral code of practise. Today, we have an enviable client base of companies who we enjoy working for, and with, people who actually want to make a difference.

You specialise in a range of industry sectors. What are the big supply chain challenges for the FMCG industry this year?

The industry doesn't change that much from year to year and therefore the challenges often remain the same. There are some big trends, though, that FMCG increasingly has to deal with. One in particular, which every company that we go into is grappling with, is the growing diversity of product portfolios. A more diverse customer base, retailer demands for bespoke packaging requirements and the fact that promotional volumes are nearing 80% of company sales, means that FMCG has essentially become an engine for churning out new products and new packaging configurations. The supply chain, therefore, has to deal with ever greater complexity. This has been the case for the last twenty years, but the reality is that the goalposts keep moving and it is therefore an ever increasing problem to overcome.

Are FMCG businesses doing enough to plan for potential supply chain disruption, in this environment of greater complexity?

No, not in my view; we find very few companies that have done proper supply chain risk assessments whereby they sit down and brainstorm all of the things that could possibly go wrong in both their own and their suppliers' businesses. A proper risk assessment should prioritise all possible damaging events, based on likelihood and potential impact. A series of mitigation plans should then be drawn up, highlighting how risk can be reduced, or dealt with effectively if it were to arise. Companies might, for example, have a site mitigation plan in place, outlining what they would do if they couldn't use a particular production facility for a couple of weeks. They will also take part in exercises which will help them to prepare for this potential

problem happening. They rarely, however, take the time to evaluate very specific risks within the length of their supply chain. You often find that the procurement department carries out financial risk assessments on their suppliers, ensuring that the supplier has a robust and sustainable business model in place. What they often don't consider, though, are the operational contingencies, such as what they would do if that supplier's production facilities were suddenly unusable, or what the impact would be if they couldn't source a particular product, or if a train carrying materials got held up at a border. The best risk assessments include understanding Plan B for the operations; it's not just about minimising potential financial losses but about making sure that the opportunity from getting the product to market isn't lost.

Optimising supplier relationships to reduce cost and improve service remain a key priority in the FMCG sector. Tell us about some of the projects Crimson has led in this area and what impact you had?

I don't think FMCG companies are as advanced in this area as they often like to portray and, in my experience, it tends to be worse in the larger the companies. In some companies, procurement is too detached from day-to-day operations planning, and in others there is under-investment in the capability of procurement personnel. Procurement people are often just price negotiators and, as a result, there is not a strong understanding of the benefit that supplier development can bring. This is often not the fault of the procurement department but is the result of thinking in silos. For the majority of companies that we go into, this is one of the 'big ticket' items we will spot straight away. It is easy to say 'you really need to work closer with your suppliers' but there is usually a wall of resistance to break down first, as companies don't realise how it will benefit them financially. We often have to convince them that they will truly get price reductions from suppliers, if the communication and integration between themselves and their suppliers, was better. By working together they will reduce lead times, reduce the amount of stock, improve the accuracy of both companies' planning processes, improve transport efficiencies; there is a whole wealth of improvements that can be brought about by working together. We currently have consultants based at several major FMCG companies working to improve collaboration with packaging suppliers, to try and improve product availability.

What do you perceive to be the potential pitfalls of using international suppliers?

If you use international suppliers then you obviously have longer lead times, different payment terms and many other complexities to deal with. A lot of companies are being forced down the route of outsourcing or sourcing from the Far East, and they've often done it purely based on purchase price but failed to work out what the 'full cost to buy' is. 'Full cost to buy' means factoring in all of the ancillary costs the business will incur while dealing with a long distance supplier. This will cover increased working capital, increased obsolescence, quality issues causing delays, poor reactions to changes in demand, and so on. A lot of these costs are not built into the initial supplier agreement. What we're finding is that a lot of our clients are still happy to place base-load supply on longer lead times from companies in the Far East, but also dual-source with suppliers closer to home, often in low cost Eastern Europe countries, who can guarantee top-up volumes at short notice, if and when required. We're still amazed at how few companies have really done a proper 'full cost to buy' analysis.

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You indicated a potential talent issue within procurement earlier; what other supply chain talent gaps have you identified in the FMCG industry?

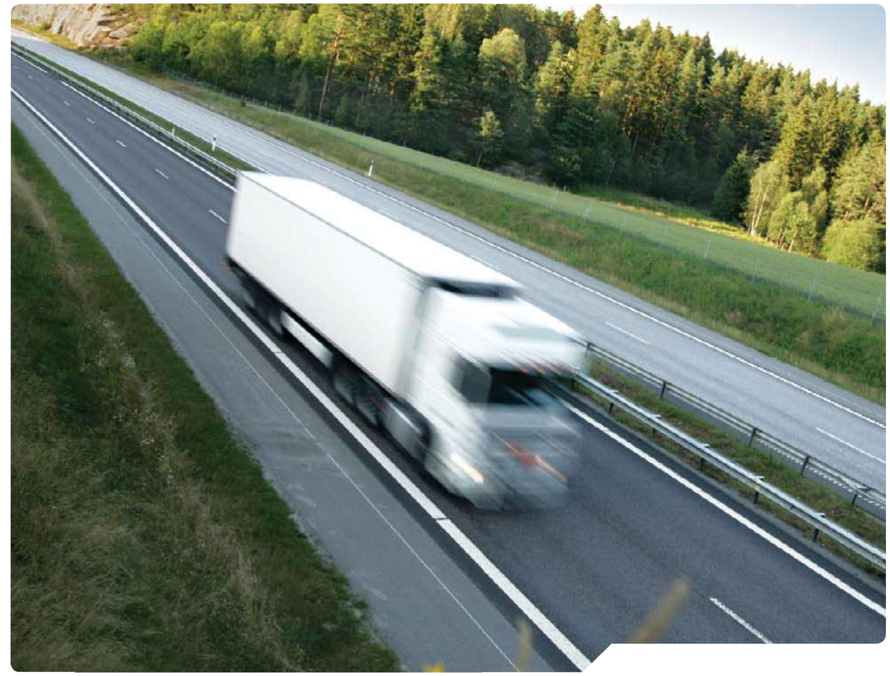
Companies that are transitioning from lean to more agile supply chain models require different styles of thinking and different personality traits. Companies with very efficient and organised supply chains tend to have employees who are used to working in steady, controlled environments over long periods of time. You can certainly ask those people to become more agile and reactive, to learn how to change plans quickly or shorten lead times, but it's a culture that, ultimately, the majority of them won't be used to. Another big challenge for FMCG is that all of the capability within the supply chain has traditionally been focused within manufacturing and production. That's where all of the really good people typically are, and often the rest of the supply chain, including vital points of customer contact like logistics, have been outsourced. Today, however, because the biggest margins are in emerging markets, businesses are faced with the challenge of moving all of the most capable people at the back end of the supply chain to the front, to focus on developing smarter distribution channels into underdeveloped regions. The companies that are able to do this effectively and capitalise on the opportunities in emerging markets are the ones that will be the ultimate winners.

Are companies in the sector not doing enough, then, to ensure the supply chain is primed to support emerging market growth?

No, they're not. Although many say it is a major part of their focus, the reality is that supply chain directors don't spend enough time thinking about distribution from the factory gate to the end customer. If you really wanted to challenge them you could ask 'Can you describe, with some acceptable level of accuracy, how many distributors with stock holding points there are between your factory and the end customer in the deepest, darkest part of China?' That's really how they need to think about it these days. It's interesting because we've spent the last ten years espousing the end to end supply chain, from the customer all the way back to the supplier. Nowadays the spotlight is shining brightly on the customer distribution channels within this whole end-to-end view, especially in emerging markets.

In your experience, which companies are the most innovative in this area and why?

The most innovative companies are direct sales businesses, who are leaps and bounds ahead, not necessarily in terms of having rigorous processes in place, but certainly in terms of creating innovative ways to deal with the complexity of mass product distribution and



getting to the end customer, with exceptional levels of service and quality. They are right at the extreme end of customer propositions, where they have very limited comparable demand history, crude forecasts, sales periods in weeks not months or years, long lead-times, very rapid NPD and yet are still required to deliver 99.8% item fill rates. That has driven them to conceive very clever ways of servicing the customer and interacting with them, giving them the latest information on what products are available, understanding what it is they are likely to want in a few weeks' time; planning the whole business on a day-by-day, hour-by-hour basis. It's the fact they are actively managing a consumer relationship, rather than selling through a retailer, for example, which has driven these companies to be so good.

Would you agree that FMCG supply chain leaders should take on greater responsibility today, which goes above and beyond their discipline?

The supply chain should cover manufacturing, planning, distribution and procurement. This is not new thinking and successful companies have embraced this, whereby the Supply Chain Director essentially becomes a COO, with control over the entire supply side of the business. Where we have seen a push back in recent times is where supply chain leaders lose control of the inventory in markets to market General Managers, which is a lost opportunity because you end up with inefficiency in the business that doesn't need to be there.

Most FMCG businesses, however, are generally product driven, where the focus is on marketing and brand creation and, as a result, they typically have inefficient supply chains. The fulfilment side is often just taken for granted.

What would you like to see Crimson achieve over the next ten years?

We want to be recognised as the best strategy and performance improvement consultancy in the world - the 'McKinsey of supply chain' – and to carry on doing work that we enjoy, for businesses that want to change for the better. We're currently looking at globalisation options and increasing our delivery presence on the ground in emerging markets. We've typically grown through delivering what the client wants, to a high standard, and I expect that to continue. We don't, however, do a lot of advertising. We are known by a select group of companies that covet our services and we essentially move from referral to referral. So, we'd like to improve our brand recognition. Our client list is already impressive though and includes BAT, Diageo, Carlsberg, Tata Global Beverages, GSK and the NHS, to name a few big brands.

What plans do you have to mark your tenth anniversary?

We're walking up Snowdon as a company, next month. We have all of our usual networking events, and we'll be making them as big and as flamboyant as possible. We're also going to be working!