TATA CONSULTANCY SERVICES

Building on belief

A 360 degree view of the supply chain is part of your marketing

Abstract

Today's marketer is faced with a more complicated world than ever before. In the past, the production side of a business could be ignored, today, production and logistic strategies will influence marketing and pricing choices. If your company is not tracking the progress of your product shipments, then your marketing activities may be tripped up by a failure to have inventory or inability to deliver. Increased coordination between marketing, logistics and digital marketing will be a new important task.

The future value chain and supply chain is likely to offer a different set of tradeoffs for marketers. They will need to manage their business and campaigns in a more volatile world. They will likely have to maintain higher levels of stock and components and pick the cost-optimal location of production, be it China or Mexico. Coordinating with other parts of the company will be required.

Acquisitions may also represent an approach to minimizing some risk in the supply chain. Supply chain in the Business 4.0™ era will have to reinvent their processes to become efficient and flexible to drive marketing and improve the bottom-line.

Marketing now needs to worry about supply

If you are a marketer, you have in the past been able to delegate or ignore the supply chain side of your business.

The COVID-19 pandemic and the resulting interruption in supply for numerous product categories changes the relationship between marketing, selling, and sourcing. Today's marketers can execute successful campaigns only when supply chain visibility and transparency are at their fingertips.

A huge variety of supply-side interactions have occurred in 2020 and 2021. Marketing and sales activities have been dramatically affected by the ups and downs of product availability.

Companies have been rapidly investing in digitizing their business. Huge advances in contactless marketing, sales, and delivery are critical to being a leader in the digital space.

But there is a converse side of the speed up and digitization of marketing and sales in the supply chain. Some supply chains are struggling to achieve last mile fulfillment due to interruptions which jeopardize marketing and sales projections. The absence of inventory can cause customers to switch to brands that have inventory.

Marketing campaigns can fail if delivery is an issue. Customers tend to get dissatisfied when inventory is not available or orderable. Some brand loyalists may wait for supply; others may switch brands causing customer churn.

In B2B business, the interruption in supply of parts (for example, semiconductors) can jeopardize the assembly of the final product (automobiles) with significant revenue consequences.

Demand-driven supply chain creates new opportunities

Marketers may see an upside from this changing risk pattern. B2B businesses may see the opportunity of leveraging these uncertainties to position themselves as additional or alternative suppliers without the component risk to customers. Their customers may have the same concerns about inventory availability and may seek additional suppliers without the component risk. With successful supply chain innovation, there exists a better opportunity for capturing entire sales relationships.

The implications for marketers are that the product features traditionally emphasized in market literature now need to address the total cost and risk of doing business with the company. Unitel, a Canadian telecom company, was able to bundle themselves as a second supplier by providing telecom 'insurance' to its large banking customers, which turned out to be a compelling value proposition. The cost of their telecom offering was less important than the cost to a bank of not being able to operate a money market trading floor.

In the B2C space, moving customers from a one-time purchase to a subscription purchase (as Amazon attempts to do) can introduce certainty into logistics, minimize marketing costs and increase profitability.

Logistics will need closer management

For marketers, order-time assumptions now need to be revisited when planning campaigns. They will need to take a leadership role in discussing choices with the CEO, digital commerce, production, and logistics departments. In the past, businesses with cyclicality (for example, toys or Christmas weighted sales) have spent a good deal of time planning around a high sales period. Those kinds of marketing skills – figuring out what will sell in advance– will be increasingly used throughout the year.

The traditional marketing assumption of the advantages of volume, that is a learning curve or scale cost structure, may not be quite as relevant in a more uncertain world. Pursuing a learning curve strategy may not be worthwhile if you can't get the units produced on time.

In addition, stakeholder issues can change the buying patterns of customers. A CMO may have to consider the location of production as part of the brand attribute and from the point of view of customer preferences. Buyers may change their preferences– they may seek locally produced products – as is happening in some B2C agricultural markets such as farmers' markets and the increasing demand for organic produce.

Governments may incentivize buying local and tax offshore products. A CMO must be sensitive to these types of demands. National security issues may change the tradeoff between cost and local production: medical supplies, for example, have now become important issues during the global pandemic. Marketers may have to negotiate with government to fund higher levels of local inventory and higher levels of capacity.

In Canada, the Federal Government has funded three different vaccine production sites. The US Federal Government is encouraging local microchip production. Singapore's activist government is subsidizing microprocessor production locally.

With longer or more unpredictable logistics, four potential strategies, all of which affect the capital requirements and marketing decisions of the company, now need to be considered:

- Carry more inventory close to the customer
- Seek multiple logistic chain suppliers, for example, have different ocean paths for delivery
- Extend logistic contracts to lock in delivery capabilities.
- Move production closer to your markets.

Pricing strategies are likely to be more variable

Marketers will need to pay more attention to pricing strategies. For example, innovation may be an option for driving down costs. Companies may consider counter-segmentation strategies, that is, offering a common product to multiple segments. The type of production can be varied. Investment in 3D printing may open up new opportunities to service low volume, high complexity products. Strategies of disruption may also be appealing where companies launch defeatured products to compete under the umbrella of high-end products. Google has pursued this strategy with Chromebooks, which are generally less expensive than Windows or Macintosh machines.

With fluctuating production costs, heads of marketing may have to adopt dynamic pricing models based on production and delivery costs. This variability in pricing has been common in retail operations but represents a potentially new approach for the chief marketing officers (CMOs) accustomed to stable pricing. Promotional pricing may reflect anticipated inventory levels rather than waiting for excess inventory to build up.

Pricing has historically been one of the complicated tasks in companies. No one person is typically responsible for pricing. A pricing manager may have input, but so do the CMO and chief financial officer (CFO). Digital marketing leadership can also be involved in pricing decisions, using test data from e-commerce campaigns. An integrated view of pricing, one that not only looks backwards at historical costs but looks forward at future costs may, in some industries be an important marketing tool.

Your company's pricing predictions should be compared against the forecasts for competitor companies. In effect, pricing is an incremental set of decisions with testing as a key task.

Forecasting competitors' pricing and costing strategy is not easy, but worth attention. It may require more detailed competitive analysis of competitors' supply networks and pricing strategies.

The value of usage information increases

In this more uncertain world, tracking information about customer product usage is going to be more important. Predicting when a customer will repurchase a product can help steer the supply chain. This type of information can be collected directly from the customer or picked up through internet of things (IoT) sensors.

Artificial intelligence and machine learning can be used to derive usage patterns. Both these approaches require more integration between marketing, decision support, and information technology functions. Products with learning curves need to feed training data and results to customer relationships management (CRM) systems to track increasing or potential usage.

Reducing risk: a value-added strategy requires a tiered approach

Many successful companies have chosen to make acquisitions in order to lock in key technologies or components. As CMO, the key decision is often whether the acquisition (or perhaps licensing) can add to the value proposition or match a competitor's product. In other words, understanding how these acquisitions contribute to brand differentiation.

Perhaps the best example is Apple. It has a multi-tier supplier strategy. It acquires companies with key technologies that allow it to increase its differentiation and contribute to its branding. It uses its enormous buying power to make its purchases critical to suppliers such as Foxconn. It even sources components from competitors such as Samsung.

Tax policy and marketing

A final note on the implications of supply chain for marketing is the importance of tax policy. Unlike the USA, many countries use a value-added tax scheme where value added taxes are rebated on export sales. This taxation strategy encourages companies to manufacture locally and to export from the local production site. A CMO may have to deal with the pricing consequences of domestic manufacturing and also the supply advantages. Local manufacturing poses challenges to marketers to manage the transition from offshore sourcing to domestic sourcing. Domestic sourcing also changes the leads and lags of marketing campaigns and production.

There is a growing global trend to create policies that incentivize local production and encourage exporting. This may change the balance in the equation of whether to rebuild manufacturing locally in anticipation of export encouragement policies. Marketers need to keep their eye on the changing location of their supply chain and the product availability and pricing consequences.

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