



Change and the Promotional Products Supply Chain

There are no longer any secrets in the business of promotional products. Just as the Internet has brought great amounts of information and clarity to other industries, so it has to this one. Gentleman's agreements and "understandings" of what the roles of distributors and suppliers are an anachronism that depends on uninformed customers. It is naïve to assume that end users today will remain uninformed in this age of information. "Business as usual" is being replaced by more competitive realities that are leaning out the promotional products supply chain to the benefit of the end user. This article takes a look at the promotional products supply chain, where it's been, and what's in store for the traditional supplier and distributor firm as well as the trade associations connected with this industry.

End users will pay for value and the creation of value in the promotional products supply chain requires a distinct contribution from each link in the chain. Value stream analysis is an approach to recognizing the value created by all members of the supply chain. Value stream analysis looks at the entire chain as a continuum of value creation. From a supply chain perspective, this analysis insures the inclusion of both the end user and source supplier in the value equation.

Definitions

Value stream analysis is a business analysis model designed to identify, document, measure, manage and improve a supply chain in order to maximize the value of the system.

Value has been defined as the capacity of a good, service, or an activity of a link in the supply chain to satisfy a need, or provide a benefit to a person or legal entity. Where there is no real value created there is the danger of elimination.

Waste is anything that does not contribute to the creation of value for the customer. Passing paper does not add value and links that are performing only that step will be discovered and eliminated by an informed customer.

Some history

The traditional transaction chain for products produced and decorated in the U.S. had each link connected only to the next link in the chain.

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Figure 1



And for products imported and decorated in the U.S., it looked like this.

Figure 2

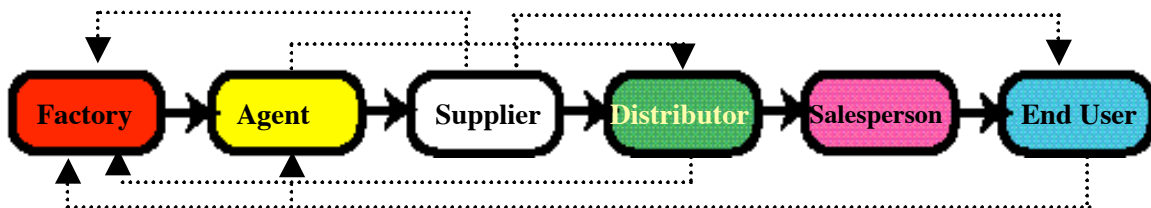


Simply put, in the beginning, each link on these chains didn't have much vision of the link two steps behind it so each link in these chains provided that information and that was one of their contributions to the value of the chain.

Some Changes in These Relationships Over Time

It was just a matter of time before each of the links on this chain started to learn more about the supply chain and exploit that knowledge. Though not shown in the following figure, the author was at a distributor's sales office this year when one of the salespeople was talking direct to a factory in China and placing a large order. Trade shows in Hong Kong now have attendees from each of these links.

Figure 3



What does this mean?

It seems there are two approaches that can be taken to this evolving scenario. The first is act as though nothing has really changed. Suppliers will only deal through distributors and vice versa. The problem with this approach is it is just patently false. While there are many suppliers and distributors that will continue to do business this way, there are too many others to ignore who chose not to.

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The second is to examine the value added steps of each link of this supply chain and recognize it for what it has truly transformed into. In this approach, non value-adding links are dropped. There are no lingering questions of the "ethics" of distributors going to the factories direct or suppliers going to end users direct. If you don't contribute to the value of the chain you don't belong in it.

Steps to Examine for Value

Step 1: Identify

The first step is to identify the primary process of each link in the supply chain, a summary that describes the purpose of the link; why it exists. The customers and suppliers of each step of the link and their needs are identified. Through the application of value analysis to each step, the identification, documentation of requirements and expectations, and measurements of success for each step, value is not only created but can be validated.

Step 2: Document

The second step is to document the link and list all the work processes within it. The documentation step also allows for a review of processes to determine if there are areas where non-value adding activities are taking place. An example of a non-value adding step is a supplier taking an order from a distributor and then replacing that order with a factory overseas. Since the distributor could have done that process, the supplier has not added any value to the order. Once identified, the non-value-adding step is removed.

Step 3: Measure

In order to manage and improve a supply chain or value stream, you must be able to measure it. Emphasis is placed on measuring performance in four major areas: quality, timeliness, quantity, and cost. Key indicators are developed and communicated throughout the supply chain. Improvements to the overall system are the accumulation of improvements in these areas along every step of the chain.

Step 4: Manage

The fourth step is to manage the processes. Each measurement should have a "standard." A standard represents at what level the process should be operating. For example, a standard could be for Economic Value Add or Supplier Value. As is step two, if there is no value added the step examined as a candidate for elimination.

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Step 5: Improve

The fifth step is to improve the value chain. Improvement in this step does not mean small, incremental improvement, or improvements gained through steps 1-4 above, but those improvements leading to a transformation of the supply chain. Benchmarking other supply chains, creativity, and innovation all play a role in this step.

Move Ahead to Today

There is a continuum of orders in the promotional products business ranging from a few dollars to orders over a million dollars in value. There is clarity at either end of this continuum that is covered in the next examples. Roles become less clear in the middle and orders in that range will probably continue to be served by the complex supply chain shown in figure 3.

Looking at the largest orders first, let's look at the example of a pen order for a large pharmaceutical company. These orders are not new to companies like these, they know exactly the pen they want, and because of their large global presence, they know exactly which factory they want to produce this pen. In this case the services offered by factory agents, decorators, distributors, and distributor salespeople offer no additional value to them so the supply chain for this transaction would be the one in figure 4 for an overseas factory or figure 5 for a local decorator.

Figure 4



Figure 5



The orders at the small end of the spectrum represent the vast majority of promotional products orders and it is this large number of orders that creates the clarity for the supply chain here. The sheer number of end users makes it impractical for suppliers to attempt to reach this market through catalogs, mailings, and trade shows. An argument could be made for web pages that would allow a supplier to sell these orders direct but the question of how to get all of the required end users to that page is still there. At this end of the supply chain, the distributors and their salespeople are adding value for the suppliers by being able to reach a large number of end users. They are in effect the suppliers' sales forces and therein lay their value. For these orders, the supply chain remains in its familiar form as shown here.

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Figure 6



With long enough lead times, a large enough order, or a grouping of orders, the chain could look like this. Here the lower cost overseas factory has supplanted the traditional supplier. Stateside suppliers producing overseas and then selling that product to distributors (passing paper) do not add to the value of that product so they are dropped from the chain in this example.

Figure 7



So What Does This All Mean?

For suppliers, distributors, and trade associations, their world will be much more competitive than it has been in the past.

For Suppliers

Some suppliers may try to sell direct to the end users, becoming similar to a "direct house", but most will go back to their roots of fulfilling the traditional small orders of this business. If they are producing their own products they will continue to be included in the supply chain provided their products are price competitive with those comparable products produced overseas. Suppliers with excellent relationships with their distributor sales forces will be the most successful in this environment with relationship skills being a required core competency.

For Distributors

Distributors will become inefficient only with the largest of orders. End users will be going direct ever more frequently with those requirements. Distributors will still be in the game with the remainder of the orders and their value to the supply chain is in the efficiency they bring in reaching the large number of end users. The Internet, globalization of the supply chain, and the growth of low cost communications technology have opened up the overseas factory for many of the distributors' orders.

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Trade Associations

Since nature abhors a vacuum, trade associations will either recognize this new reality or yield part of their business to an association that does. Specifically, they will either begin including representatives from overseas factories in their trade shows or another organization will be formed to fill this need.

End Users

As with any supply chain leaning process, it is the end consumer that benefits the most from this process. One of the possible benefits for the rest of the supply chain is the growth in the use of promotional products as their cost to the end user declines.

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