OVERVIEW The Personal Touch

Cosmetics and skin care manufacturers look in the corporate mirror and smooth logistics and supply chain wrinkles.

BY JOSEPH O'REILLY

"The beauty business is market driven, so marketing drives our company," says Ralph Folkes, assistant vice president of corporate transportation, L'Oreal USA, based in New York City.

Consumer appeal ultimately lies in the eye of the beholder. But when discretionary shoppers can’t find L’Oreal’s Colour Riche lipstick in Brazil Nut, or Vive Pro daily thickening shampoo for men, all eyes focus on the supply chain.

As the U.S. arm of the largest cosmetic products manufacturer in the world, L’Oreal straddles the balance between creating a demand and meeting it. Beauty-care consumers have specific wants, and manufacturers and retailers are obliged to ensure the desired products are on the shelf. Brand recognition turns heads, but efficient supply chain management seals the deal.

For Burt’s Bees, a niche, all-natural skin care products producer, the company’s ethos and product appeal depend on equal acceptance from the consumer.

"Sustainability flows into our product, corporate culture, and customers," says Paul Tartalio, senior vice president of product supply chain organization for Durham, N.C.-based Burt’s Bees. Achieving this goal requires publicizing the merits of sustainable sourcing, educating consumers on the value of all-natural ingredients, and having inventory in place to lure shoppers into buying.

For both L’Oreal and Burt’s Bees, and the health and beauty care industry at large, marketing and logistics play an uneasy game of give and take. Shelf presence and off-the-
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shelf transportation management solutions are hot commodities. Manufacturers and retailers together rely on demand sensitivity to keep pace with the latest sensitive skin care lotion to hit the market. But unique unit packaging collides with uniform loads and capturing both the consumer's eye and point-of-sale signals compete for undivided attention. Inside the carton, out on the truck, or above in the corporate ether of sustainable stewardship, these demand- and supply-side functions have a stake—each with its own pull. Much like the consumers who buy into their sell, personal care product manufacturers are taking a reflexive look in the mirror—then applying logistics and supply chain management salves to manage the fickle tendencies of American beauty.

HOT TOPICS

Beyond Cosmetic Concerns

Integrating Marketing and Supply Chain

One unique aspect of the health and beauty products industry is the synergy that exists between supply chain and marketing. Who knows the consumer better: the manufacturing and logistics function that has worked with research and development to understand, execute, and deliver to demand or the marketers spinning the publicity machine?

Friction between marketing and physical flow can present a challenge. On one side, shelf presence and packaging are at a premium, encouraging individuality and different product shapes and sizes. On the supply side, carton, pallet, and cube standardization is a priority.

Properly communicating marketing and sales efforts to back-end logistics functions, and vice versa, is important. Real-time data and key performance indicators need to flow from point of sale so that production and logistics can ramp up or scale down inventory according to demand. Marketing and sales can similarly leverage inventory information to discount and liquidate under-performing SKUs and reduce carrying costs for obsolete product.

Managing Multi-Channel Fulfillment

Health and beauty care products are sold into a variety of different retail streams, each with its own wrinkles.

L’Oreal, for example, targets four markets: consumer products to mass retailers and chain drug stores; luxury brands to department stores and boutiques; beauty supplies to salons and professional product groups; and active cosmetics or dermatological products through dermatologists. Burt’s Bees sells to mass merchandisers and department stores, smaller specialty stores, and to consumers directly via the Web.

Success is contingent on understanding the end
customer's tastes, as well as working within the retail customer's boundaries. Chain drug stores with a specific shelf presence may fold a manufacturer's brand into their own store line. For example, Burt's Bees' new oral care product is displayed with toothpaste and other like products. But in a specialty store, its product line may be featured in its distinctive “hive” display cases. Conversely, selling to online customers demands entirely different marketing tools and packaging requirements.

These variables translate to transportation as well. Big box wholesalers often want regular LTL and truckload deliveries, while boutiques, salons, and direct-to-home buyers may order in smaller batches or rely on parcel and expedited shipments.

Depending on the size and scope of business, manufacturers can operate separate supply chains for each business unit or source from a centralized pipeline. Finding synergies among disparate channels can help consolidate inventory, rationalize transportation, and reduce costs.

**CASE STUDY**

**Personal and Planetary Care: It's the Bees Knees**

Burt's Bees' business is all about creating a buzz. As sensitivity to product quality and safety continues to grow, the Durham, N.C., all-natural personal care goods manufacturer has found a lucrative consumer niche that is growing fast.

Two years ago, the company, famous for its lip balm and skin care products, found itself in dire need of more space. Its Durham facility served as an administrative office, manufacturing plant, and distribution center. But with annual growth topping 25 percent, Burt's Bees needed a new facility to consolidate inventory and manage distribution.

So it turned to Raleigh, N.C.-based supply chain consultant Tompkins Associates to help lead its site selection search and DC design.

"Tompkins took into consideration what we were and what we are going to be, and applied that to the design," says Paul Tartalo, senior vice president of product supply chain organization, Burt's Bees.

Together, Tompkins and Burt's Bees considered outsourcing the new distribution center to a third party, but instead opted to acquire a 144,000-square-foot facility so that the manufacturer could accommodate future expansion and maintain control over the operation.

Because Burt's Bees' products and culture are defined by what Tartalo describes as "personal and planetary care," he had misgivings about whether the company could find a third-party logistics service provider capable of matching or learning those values within the anticipated roll-out window.

"We source and produce our products from all-natural raw materials," he explains. "Our challenge is that we are very different from the market. Sustainability is part of our DNA, our culture, and our product."

This vision permeates the company's supply chain from source to shelf and in-between.

Inside its new DC, Burt's Bees wanted to bring a similar sustainable approach. Tompkins Associates retrofitted the facility with energy utilization in mind. It painted the facility all white to increase reflectivity and
Less Packaging, More Gain  Packaging essentially serves two purposes: it protects products while they transit the supply chain, and it serves as a marketing vehicle, conveying important information to the consumer. The challenge for health and beauty care companies is minimizing packaging, wraps, and labels without diluting the individuality or marketing appeal of a specific unit.

Efforts to revolutionize packaging with innovative, earth-friendly materials have become commonplace. For Burt’s Bees, selling sustainable packaging is as much a part of its corporate culture as peddling its many SKUs of all-natural skin care goods.

Personal care product manufacturers have become familiar with using post-consumer and post-industrial recyclable materials, reducing wraps and excess packaging to shrink their

installed new lights to similarly capture greater energy savings, Tompkins also engineered a motorized drive roller conveyor that only runs when activated by sensors.

“In keeping with Burt’s Bees’ culture, we selected a 24-volt conveyor system, managed by our Tompkins Warehouse Control System, to minimize power use. The conveyor shuts off zones when there is no product online,” says Dale Harmelink, a Tompkins Associates partner.

The decision to compartmentalize its distribution operation, move it to a larger facility, keep operations and control in-house, and leverage new technology has helped Burt’s Bees manage the growth of its business without diluting its cultural mission. In fact, it has gotten better.

The company’s square footage has expanded 140 percent, but its energy usage has been cut in half. Now that Burt’s Bees has greater control over inventory flow, it is focusing efforts on growing business the only way it knows—creating more buzz.
material footprint. Burt’s Bees and L’Oreal are both engineering packaging solutions that are biodegradable, specifying materials with after-life reconciliation and recycling in mind.

Beyond consumer demand for more eco-friendly packaging and the marketability this carries, reducing product footprint practically eliminates cost. Lighter weights and smaller sizes translate to better cube utilization and transportation economy.

But providing consumers with a multiplicity of lipstick, mascara, hair care treatments, and countless other products to choose from—in different colors, styles, and sizes—is important. For appearance’s sake, retailers often need to stock and display a full product line, with all its variations, regardless of what is selling. Conversely, the more products and types there are, the greater the competition for shelf space.

Greater product complexity clutters the supply pipeline, creates less uniformity, builds
more inventory, and impacts load efficiency and freight costs. It also introduces new and different packaging requirements into the mix.

Companies can do a better job of minimizing SKU creep by forecasting demand more accurately and eliminating less-popular or underachieving units. The economic downturn drove many manufacturers to consolidate their brands and focus on what is selling, jettisoning under-performing product. To some degree, consumers were more attracted to economy than selectivity.

Regardless, companies need to engage their retailers better and understand point-of-sale trends, then communicate this data to marketing and logistics to marry inventory with demand.

Measuring Quality and Sustainability Brand and integrity go hand in hand, and personal care product manufacturers are especially attuned to monitoring the quality of their products from source to shelf. The wave of tainted consumer product imports from China in 2007 put manufacturers and retailers on red alert as the ramifications of bad publicity became painfully apparent.

[SNAPSHOT] COSMETICS AND SKIN CARE

[BEST PRACTICES] Prescriptive Solutions: Anything but Cosmetic

Reacting to variable demand and marrying marketing and logistics efforts requires a great deal of collaboration. Personal care product manufacturers can choose from a wealth of resources and strategies, but these four tools of the trade are especially important.

1 VENDOR-MANAGED INVENTORY (VMI) – Employing a VMI strategy can help businesses reduce the risk of carrying too much inventory and respond better to shifts in demand patterns. For example, a manufacturing facility running 100,000 SKUs four months out carries a considerable amount of stock that may or may not sell.

Charging suppliers with inventory management leans the pipeline and leaves product in its least value-added form farther back in the supply chain. Companies can leverage this flexibility to rationalize packaging requirements for different retail channels closer to demand or even source all inventory from a centralized stock point.

2 INBOUND LOGISTICS – In the personal care product supply chain, demand sense and respond is a competitive differentiator. Controlling inbound transportation and product flow at each pivot in the supply chain – from manufacturing plants to distribution facilities to retail stores – helps businesses pull inventory to demand.

Capturing demand signals from the point of sale, then sharing this information with marketing, logistics, and service providers upstream in the supply chain, enhances visibility, grows collaboration, and increases flexibility and economy.

3 FREIGHT CONSOLIDATION – SKU variability and differing carton sizes, multi-channel business requirements, and varying transportation demands make freight consolidation a must for cosmetics companies. From locating inventory in centralized DCs to controlling inbound transportation and pooling shipments, manufacturers can improve asset utilization and freight spend.

4 PACKAGING – Packaging is a hot topic and an executable solution for the health and beauty industry. It’s a means of conveying information and appeal to a consumer, and reducing material footprint has an impact on load optimization and transportation needs. Marketing and logistics each have a hand in engineering packaging requirements, which can increase communication and collaboration in countless other ways.
to a select few.

Now that a "green" wave has swept over industry with resounding acceptance, consumer-facing companies are not only watching their raw material sources and finished goods more carefully, they're watching what they use to produce and package products.

Burt's Bees' value proposition is built around sustainable sourcing, and its supply chain carries the same message. Because its products are obtained from all-natural raw materials, speed to production and market is critical. Time sensitivity is at a premium and so is quality control. Shorter shelf-life constraints require continuous and extensive testing of raw material sources and finished goods.

[CASE STUDY] Inbound Routing Compliance: L'Oreal-ity Check

When a lake is filled to the brim it looks pristine, calm even. But when the water level drops, rocks and other hidden anomalies begin to surface.

This is how Ralph Folkes, assistant vice president of corporate transportation, L'Oreal USA, describes the decision to invest in a new transportation management system (TMS) in 2008, as a receding economy began to expose submerged rocks within L'Oreal's supply chain.

The U.S. division of the world's most recognizable cosmetics brand was challenged with holding vendors compliant to inbound transportation requirements. After much due diligence, L'Oreal USA chose Elmwood Park, N.J.-based UltraShipTMS' flagship solution, UltraShipTMS, to help automate its routing guide and attain greater visibility.

Folkes, who was formerly transportation head of the manufacturer's consumer products division, also recognized that business units within the company needed to work closer together and to pool purchasing leverage volume to create cost savings and service improvements.

L'Oreal had a TMS in place to oversee outbound transport from distribution facilities to customers. But it needed to gain greater control over inbound raw material flow to its manufacturers. Vendors were specifying their own carriers, not L'Oreal's preferred carriers. So the company decided to revamp the process by beginning at the top.

"This approach was critical to improving the flow of components and raw materials into our manufacturing facilities," explains Folkes. "By controlling this part of the supply chain, we could dictate transportation and inventory management, expand visibility, and plan ahead more accurately."

Using UltraShipTMS, L'Oreal triggered a transformation that comprised three phases:

1. **Compliance.** "We needed to convey appropriate transportation instructions to our suppliers," says Folkes. "The cost savings from simply holding vendors and suppliers more accountable have been significant."

2. **Mode Selection.** "Shipments weighing 20,000 pounds should move truckload, not LTL," Folkes says. "The system, not the supplier, now dictates mode."

3. **Optimization.** "We have now given our manufacturers the tools to go back to suppliers and figure out how to ship to us more efficiently. We cleaned the supply chain by delivering more accurate lead times. This allows our suppliers to pool shipments, and we can have freight ready to build full truckloads," Folkes explains.

Given the way the market was moving, L'Oreal's TMS rollout was timely, but also necessary. "We had no low-hanging fruit," says Folkes. "The fruit was already on the ground."

The objective for companies is to leverage the TMS and make it a supply chain tool, "to integrate it with any warehouse or transportation management system in place, and connect the links in the chain," explains Nick Carretta, president of UltraShipTMS.

The manufacturer has been able to increase inter-plant transportation efficiency between manufacturing locations and distribution centers, but it still uses separate transportation management systems to manage inbound and outbound. Moving forward, it will migrate toward a system that incorporates both. This way it can use inbound freight data to optimize outbound movements.

"Once a complete TMS is in place, collaboration with carriers and customers is boundless," says Carretta.