

Cost-efficiency and Promotions - Can We Do It?

A Case Study at Lantmännen Cerealia

Previous theory on supply chain configuration and promotions has been clear on the fact that cost-efficient companies should not participate in promotions. However, on the Swedish grocery retail market, where the retailers use promotions to e.g. lure people into the store, and have a large dominance over their suppliers, the suppliers simply must participate. So how should they cope with this if they have a cost-efficient strategy?

Lantmännen Cerealia, a supplier to the Swedish grocery retail market, has identified problems with low customer service levels during promotions. This thesis aims to first identify why this is, and then present a solution to one of the causes found. The study concludes that the problem with low customer service levels mainly derives from unaligned strategies within the organization, which have implied contradictory ways of working, as well as a low level of understanding between the different units.

The strategy of Cerealia's Supply Chain function is to be cost-efficient, whereas the Sales function strives towards selling as much as possible and are awarded more if they sell more. In addition to this, product category strategies have increased the complexity of the organization and what to work towards in each function. Since promotions are hard to forecast and yield irregular demand patterns it is important to have a clear strategy for all to work towards and a supply chain configured for this.

The recommendation is thus to remove functional strategies and choose one category strategy to align throughout the units. After this is in place, a decision regarding promotions can be made in addition to the chosen strategy. If promotions are chosen, the supply chain for promotion products should be more agile/responsive, and separated from products not sold on promotion. This would help Cerealia meet their customers' demand of a quicker response better, and as a result increase their customer service levels.

Since these two long-term recommendations are not possible to implement today, two direct recommendations to the promotion planning process of today are proposed. These are divided by volume and mix planning process routines. The promotion volume planning must have a more long-term perspective and thus needs more constraints on the volume planning to be within the capacity, and so over time. This can be calculated by subtracting baseline sales and a safety margin from the total capacity. The mix can later on be decided on with help of a lead time tool, developed by the authors, that the Sales function can use in order to make more sound decisions regarding what products are possible to produce to a promotion, with regards to the time it takes to acquire the material needed. These two short-term recommendations are expected to bring the Sales and Supply Chain units closer through increased understanding and transparency.

The situation for suppliers to the Swedish grocery retail market is tough and the amount of promotions is increasing and therefore it is important to have correct strategies and sufficient internal processes to handle promotions. The recommendation regarding separate supply chains would aid a company like Cerealia to easier meet customers' demand during promotions. Also, the capacity constraints in combination with the tool and its processes can yield a more long term planning, which is desired in order to cope with customers' demands, as well as increased understanding between the functions.

For further reading, see the master thesis *How to Make Promotions Work in a Cost-efficient Context - A Case Study at Lantmännen Cerealia* written by Caroline Vitasp and Helena Nyman at Faculty of Engineering, Lund University.