

CONSUMER ELECTRONICS RETAILER

Product Completion Case Study



EXECUTIVE SUMMARY

RR Donnelley Global Turnkey Solutions developed a unique model for a major consumer electronics retailer that allowed the customer to gain the benefits of designing and producing high-quality, private-branded products while maintaining traditional finished goods retail terms. RR Donnelley provided a turnkey solution for managing the subsupply and original design manufacturers (ODM) tiers, global logistics, demand-based product configuration, and direct-to-store and DC distribution. By gaining control over the entire supply chain, the retailer realized significant benefits including highest in product category margins, differentiated products by region and country, and improved ability to respond favorably to the highly volatile component supply and price elasticity conditions associated with its electronics products.

Client's Key Reasons for Choosing RR Donnelley

- Innovative postponement model
- Consumer electronics experience
- Global presence
- IT infrastructure and expertise
- Flexibility
- Track record of ongoing innovation
- Financial stability

BACKGROUND

Part of the company's customer-centric approach includes providing private-labeled, feature and price-differentiated models in the consumer electronics arena. Although the retailer strives to not compete with its technology partners, the private-label program is successful in augmenting or displacing many tier 2–3 brands. It also creates a differentiated offering that leverages design and manufacturing expertise that is otherwise being applied to well-known brands. This assures a high-quality private-label product that is feature-rich and provides a unique offering for ad planning and promotions.

CHALLENGE

The retailer's internal product development group determined that MP3 players had peaked at a particular price point and believed there was a strong market for feature-rich products to be sold at lower price points. This provided an excellent opportunity to introduce private-branded, lower-cost models. Specifically, the company sought a partner to support the manufacturing and fulfillment of a pair of MP3 flash players — MP3 for the United States and similar Flash Cards for other specific segments — with very aggressive price points.

The internal private-label product development group essentially functions as an independent supplier to the retail company, developing product ideas and sourcing solutions that

must compete on equal footing against outside branded suppliers. Working within the retail model, the group traditionally contracted with outside vendors to deliver fully packaged products to its stores, forgoing any direct involvement in the manufacturing supply chain. Given the complexity and high price volatility of Flash-based products, however, they realized that an integration partner capable of delivering a JIT inventory and product conversion model within a more streamlined supply chain was necessary to compete in this dynamic new segment.

Chief among the retailer's concerns was the ability to:

- Select and negotiate directly with key ODM and component suppliers, such as NAND Flash, to control design features and product quality as well as leverage their own brand names for purchasing power
- Continue to procure only finished goods but minimize inventories and associated liabilities to remain nimble and react opportunistically to customer dynamics
- Assure extremely rapid replenishment and conversion of raw materials to in-store finished goods, thus enabling the highest product availability in category with the lowest inventories and optimized product costs
- Recognize and deal with forecasting inaccuracy issues
- Eliminate the retailer's capital requirements for anything other than finished goods
- Compete on price in a commodity segment
- Meet demand volatility characterized by peaks such as seasonal events, store reset dates, and AD dates

SOLUTION

RR Donnelley Global Supply Chain Solutions asked the customer to consider a different

approach that would offer significant benefits but require a higher level of supply chain involvement. The proposal comprised a turnkey solution enabling the customer to focus on product development, marketing, and product sales. In return, RR Donnelley assumed responsibility for the procurement, manufacturing, product configuration and packaging, and retail distribution of the MP3 products.

The objectives were to realize:

- Best-in-category supply continuity
- Lowest-in-category product returns
- Optimal supply chain control and predictability
- Highly competitive total-cost model resulting in best-in-category margins to the retailer
- Single point-of-control, interface, and transaction
- Achievement of a highly flexible supply chain that would allow for reaction to component price volatility ranging from +/-5 to 15 percent per month
- Ability to ramp up or down rapidly to accommodate short product life cycles
- Complete visibility throughout the supply chain, from the retailer's buyers and merchandisers back to raw materials
- Superior global logistics management
- Pay-by-consumption model

The Conventional Branded Supplier Model

Under the typical retail model, a branded supplier contracts directly with component suppliers and manufacturers — usually located in Asia — to produce, distribute, inventory, and deliver the same products to many retailers. Branded suppliers generally determine product features and price, and product availability fluctuates considerably from one retailer to the next, depending on a number of factors. In the model, higher manufacturing economies of scale in selling to multiple retailers are offset by SG&A costs, price protection requirements,

Scheduled reviews maintain communications as well as an environment of continuous improvement.

and other marketing and promotions funding requirements. These higher total costs raise price levels to the retailer and compress margins. Lengthy product lead times force inventory levels upward and extend capital requirements considerably. *(Please see Branded Supplier Model to the right.)*

RR Donnelley Introduces New Model

RR Donnelley altered the basis of competition by providing the financial resources, infrastructure, and expertise to take control of the supply chain on its client's behalf. This approach lowered total costs, added responsiveness and flexibility to the supply chain, and still maintained the customary finished goods purchasing model. *(Please see Private Label Model to the right.)*

The innovative private-branded model consisted of RR Donnelley managing a complex array of Asia-based activities that involved commodity procurement and ODM management as well as global logistics.

One of the model's major advantages was the ability to manufacture generic products in Asia that could later be configured on demand at RR Donnelley facilities located close to the ultimate distribution points. This resulted in lower inventories, greater responsiveness to consumer demands, and a lower total product cost to the retailer.

Not bringing finished, packaged products from Asia lowered shipping costs by increasing freight density. The faster product-conversion cycles combined with buffer component inventories contributed to lower overall inventory levels while preventing costly stockouts. *(Please see RRD Supply Chain Solution chart to the right.)*

THE BRANDED SUPPLIER MODEL

Mfg/SG&A Load: <20–25%



- Results:
- High Price / Margin Constrained
 - High Inventory / Low Turns
 - Suppliers Determine Product Features and Price
 - Competitor Gets Same Products, Same Deal

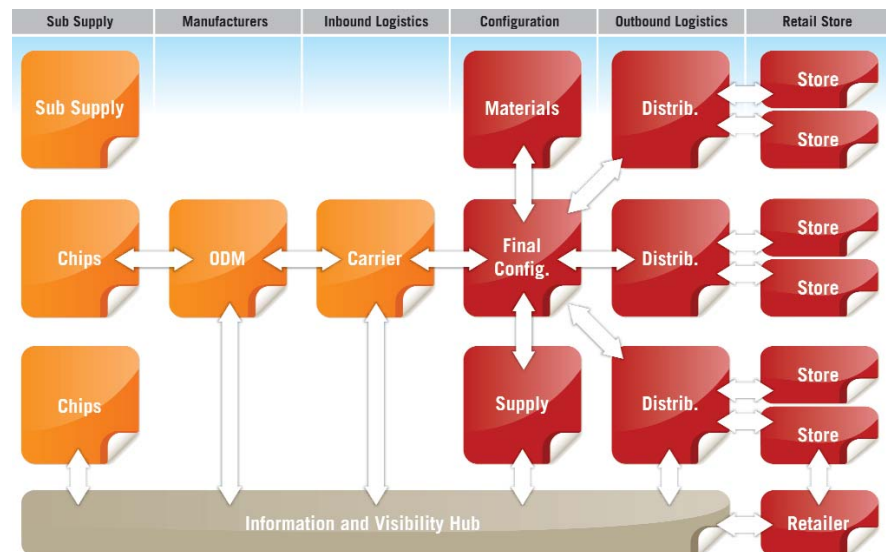
THE PRIVATE LABEL MODEL (WITH RRD)

Mfg Load: 5% SG&A Load: 0%



- Results:
- Better Price / Better Margin
 - Low Inventory / High Turns
 - Same quality products as branded supplier (often produced by SAME MANUFACTURERS)
 - Unique offering for retailers (retailer has input to product features and design, if desired)
 - Retailer still gets one invoice from one supplier and buys only finished goods

RRD SUPPLY CHAIN SOLUTION



DIVISION OF RESPONSIBILITIES

What the client provides	What RR Donnelley provides
Product design	Package & product design
Key component & ODM price setting	Procurement & materials management
Forecasting	ODM vendor management
Ordering	Global inbound & outbound logistics
	Premedia & printed materials
	Component inventory management
	Finished goods inventory management
	Product configuration & packaging
	Finished goods invoicing

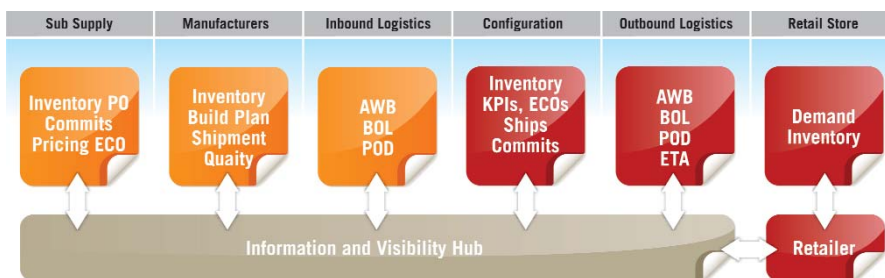
Enabling Supply Chain Visibility

Providing superior supply chain visibility is one of the key features of the private-branded model. Forming the foundation of the RR Donnelley IT solution is IViewXT™, which provides visibility to process and product for demand-driven supply models, and across the key product completion stages:

- Sourcing/Procurement
- Inventory Management
- Assembly
- Configuration
- Customization
- Testing
- Packaging
- Fulfillment/Distribution

In this case, IViewXT enables end-to-end supply chain visibility from raw memory chips to actual MP3 products on shelves in the retailer’s stores. The system provides a vital communication link among the retailer, RR Donnelley, the ODMs, and the logistics partner with daily tracking updates available. Further, RR Donnelley accomplished rapid setup and implementation of this unique IT solution.

SUPPLY CHAIN VISIBILITY



RESULTS

The model is a resounding success, with the customer reporting that implementation was by far the fastest and most efficient introduction of new products in the private-label program’s history. The four new products rose from zero market share to number three category position in just six months while experiencing the highest product availability and margins with the lowest returns rate in the category.

Perhaps most importantly, the RR Donnelley Global Turnkey Solutions model allows the retailer to be more customer centric by designing, differentiating, and controlling the products’ look and feel based on the company’s market and customer knowledge.

RR Donnelley Global Turnkey Solutions is a technology and segment leader in supply chain management services focused on product completion. We provide a wide range of outsourcing capabilities to some of the world's largest companies. Services range from materials sourcing, product configuration, and testing to customized kitting and global fulfillment.

WHO WE SERVE

Medical Products

- medical devices
- pharmaceuticals

Technology

- computer hardware
- peripherals
- software

Communications & Networking

- networking systems & components
- telecommunications

Retail

- consumer electronics
- private label

Global Turkey Solutions' demand-driven approach helps companies create more customer relevant products through customization and by bringing production, fulfillment, and distribution as close to customers as possible. Our local facilities serve major geographic regions and allow companies to customize products and information for individual customers and segments without sacrificing speed or cost-efficiencies.

GLOBAL PRODUCTS AND SERVICES

books
business communication services
business process outsourcing
catalogs
commercial print
direct mail
directories
distribution, logistics, print fulfillment & kitting
document outsourcing & management
e-business solutions
financial printing & communications
forms, labels & office products
magazines
premedia technologies
product usage documentation & in-box materials
retail inserts
RFID & bar coding
supply chain management solutions

To receive more information about our services for retail products as well as case studies from other segments including technology, communications and networking, and medical devices, please contact your RR Donnelley representative or send an e-mail request to gtsinfo@rrd.com.

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