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The Silicon Valley Laboratory

Supply Chain Continuity Affects the Valuation of a Firm
The Watermark Sports Case

Rowland Chen, Chief Executive Officer, The Silicon Valley Laboratory Inc.

Figure 1. Playing on a Dagger kayak.

In the early 2000s, Watermark Sports was a manufacturer of Yakima sports racks and Dagger and Perception brand kayaks. Watermark was formed by a private equity firm acquiring three companies and merging them (Yakima, Dagger Kayaks, and Perception Kayaks). The post-merger integration was a failure, but that is another story for another time.

For the fiscal year 2003 (ending in June 2003), the supply chain at Watermark was operating with an unenviable 45% on-time/in-full delivery performance. Among others, a root cause of the low delivery performance was a shortage of polyethylene, a chemical used to manufacture plastic, blow-molded kayaks. The supply chain for kayaks was disrupted by this discontinuity in supply.

Another root cause was the proliferation of “Q Clips” leading to over 250 stock-keeping units (SKUs) for this part. One type of Q Clip was required for attaching a Yakima to each make and model of car. For example, the Q Clip required for a Toyota Camry was different than that needed for a Toyota Corolla even though the make of the car was the same.

Over 250 SKUs for these parts made forecasting and operations planning a complex and nearly impossible task performed manually on an Excel spreadsheet that was changed daily. Forecasting demand for the individual Q Clips was a formidable task as it required predicting multiple variables – sales of each make and model of car and truck, number of vehicle buyers inclined to buy a car rack or kayak, consumer participation for supported sports and activities (cycling, skiing, camping, kayaking, and general transportation of gear),

A major intervention was required as the low performance negatively affected revenue not only for Watermark, but also for its 100 independent factory sales representatives, and the specialty retailers who carried Watermark’s products. Consumers of the products, for example, cyclists and kayakers, were left in a situation of having to switch brands to buy what they wanted (Thule instead of Yakima and Confluence instead of Dagger, for example). All players in the Watermark value chain suffered in one way or another.

In another context, the private equity owners were preparing to sell Watermark in its entirety or to carve out businesses for individual sale. The shortfall in revenue was a shortfall in the valuation of the firm as a whole or in its parts. Watermark’s chief executive officer and chief operating officer knew a major intervention was required.

“9 R’s” represent the critical dimensions required to manage for supply chain continuity. The 9 R’s are reliability, resilience, readiness, response, remediation, reengineering, relationship, reinforcement, and responsibility.

A 9 R diagnostic was applied *post facto* to the Watermark of 2003 by the person brought in as an Interim VP of Supply Chain, brought in to fix the supply chain problems. The ratings were then validated by the former chief operating officer who agreed with the results of the 9 R diagnostic – the 9 R Score.

The 9 R Score calculated for the Watermark of FY 2003 was 23% meaning the firm was not meeting the declared minimum requirement of 90% on-time/in-full delivery performance. The individual R Scores are shown in Figure 1 below. From it, one can see that all R Scores are below 50% which is the score needed to meet minimum requirements.

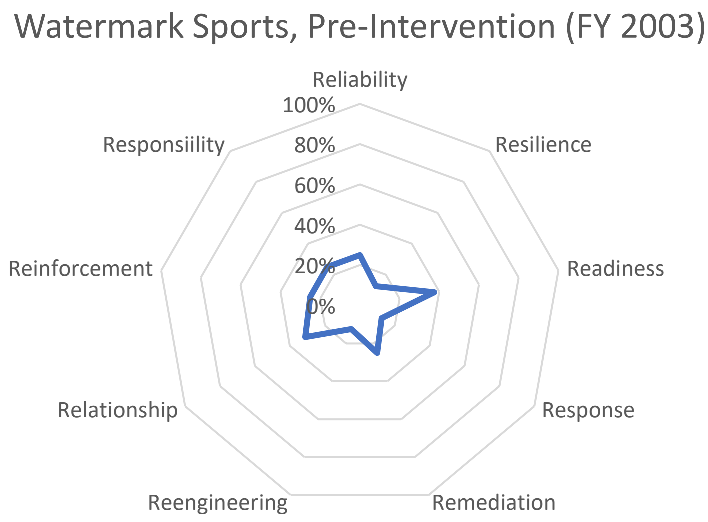

Figure 1. 9 R Scores for Supply Chain Continuity. Overall 9 R Score was 23% out of a possible 100%.

The newly arrived Interim VP of Supply Chain kicked off multiple cross-functional initiatives all directed at improving delivery performance to the minimum overall requirement of 90% on-time/in-full. Each initiative was executed by a “Rapid Action Team” or “RAT Patrol.” Example initiatives included, among others, implementing sales & operations planning (S&OP), a major upgrade from a rudimentary manufacturing resource planning system (MRP) to an integrated enterprise resource planning system (ERP), SKU simplification requiring product engineering to redesign a major part of the Yakima rack system, and improving upstream (suppliers) and downstream (sales reps and specialty retailers) relationships involving these supply chain players in the S&OP process.

The execution of the cross-functional initiatives contributed to raising on-time/in-full delivery performance to 93% at the end of 2004. The RAT Patrol approach was effective in this case. *Post facto*, the 9 R Score was raised to 57% which means, in the aggregate, the overall minimum requirements set by senior leadership for each R were achieved. Figure 6 shows the R Scores for mid-FY 2005 (December 2004). Additionally, a culture of continuous improvement was adopted. The employees of Watermark were not satisfied with the 93% delivery performance and reset the minimum requirement to 95% for themselves.

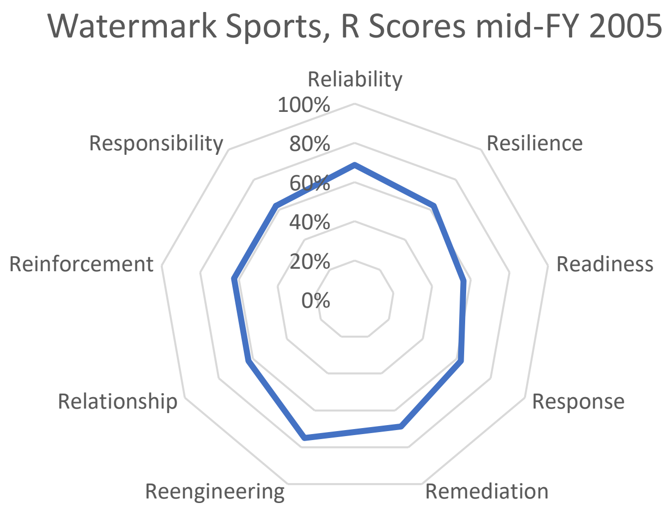

Figure 2. R Scores for mid-FY 2005 (December 2004) show significant improvement.

In the end (end of FY 2005), the private equity firm sold the kayak business portion of Watermark Sports to a competing kayak manufacturer, Confluence, for the asking price. Watermark Sports was renamed Yakima Sports. With the improved revenue and resultant net income improvement, Yakima executives were able to invest in the innovation of existing product lines and create new product markets ahead of Thule, such as tents on tops of cars. To this day, Yakima continues to battle Thule for marketshare, but now with the ability to avoid, or quickly recover from, supply chain disruptions.

