10 Quick Wins

By Christopher I. Davis and Michael R. Gregory

For companies that tend to lag behind the supply chain power curve, here's some good news. There are 10 comparatively easy actions you can take to begin turning your supply chain from a market negative to a market plus. Though the "quick wins" offered here are presented within the context of the retail industry, they can be applied to virtually any business sector.

Anyone who has ever purchased a car knows how difficult that transaction can be. The effort might involve traveling from dealer to dealer in search of the right make and model, haggling with a salesperson over price, pondering a confusing array of options, and so on. Even with the advent of Internet auto browsing, car shopping is usually not a pleasant experience.

Now consider this alternative, which a small but growing number of consumers are pursuing. They are going into the dealership and special-ordering their vehicle, choosing the paint and interior color schemes and options—sunroof, global positioning system, sound system, and others—that *they* want. Within a relatively short period of time, they will have their dream car in their driveway.

General Motors, in fact, recently announced plans to reduce the delivery period for special orders from the current two months to just *six days*. Think of what this really means; this is a *car*—one of the most quality-controlled, complex, high-price-point items a consumer can buy. Scheduling production and coordinating the just-in-time delivery and assembly of a vehicle's every component is an incredibly complex activity. Think of all the coordination required among purchasing, manufacturing, financing, legal, dealerships, suppliers, warehousing, transportation, and so on.

Now compare that supply chain vision in the automotive sector with the typical *retail* supply chain. The new release of a shirt or sweater can take as long as 10 months. Yet within that time frame, fashion, trends, and demand patterns can shift significantly. In this type of environment, the challenges to retailers are immense: match customer demand with stock on their shelves (or their Web site) and put inventory at the right place at the right time in the right quantity—and at a price the customer is willing to pay.

For many in the retail sector, success or failure depends on how well the supply chain is managed. But how does the typical retail supply chain network compare with GM's? Is the network's supply chain a competitive advantage? Are consumers impressed with the retailer's ability to get them the

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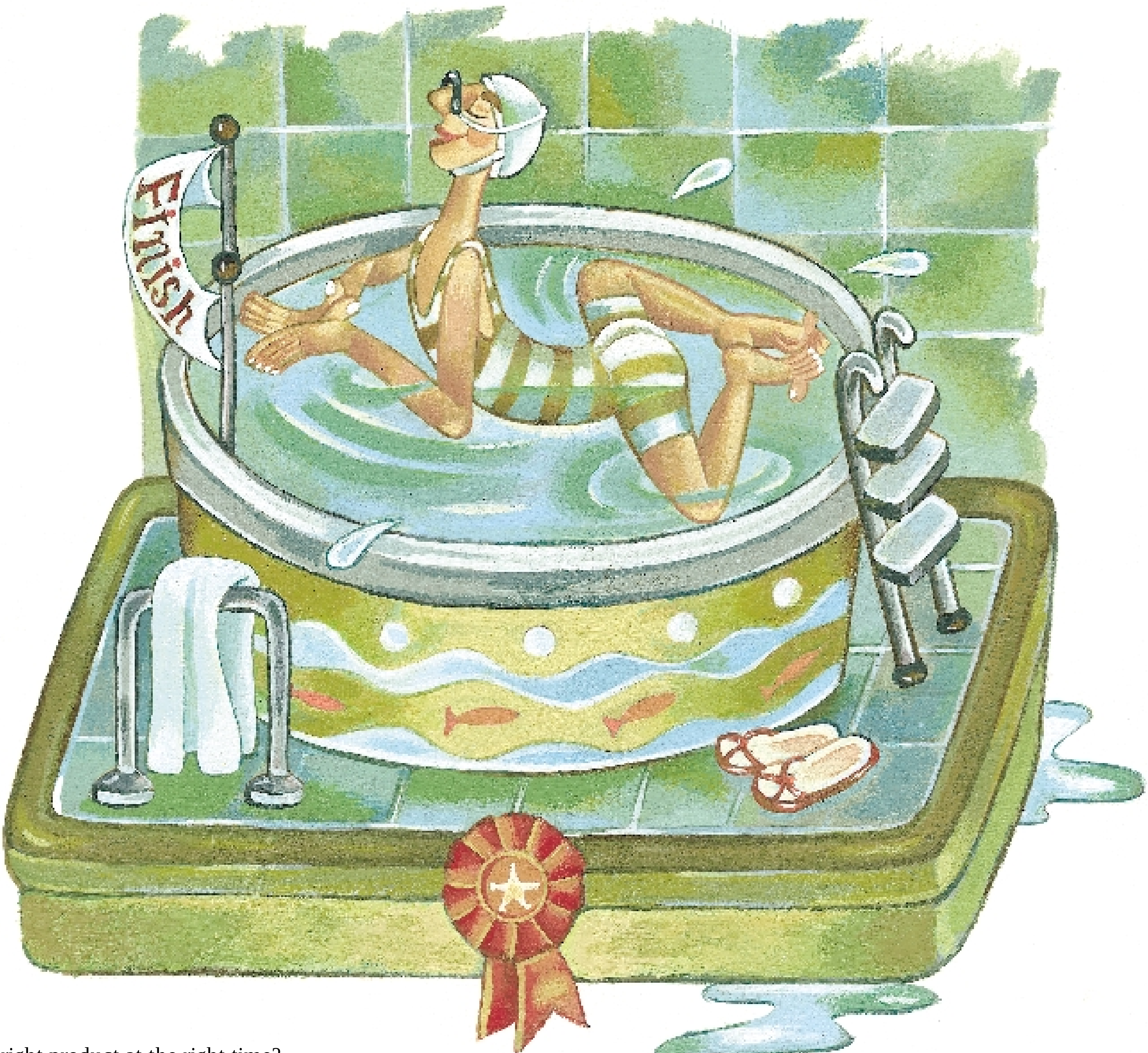

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right product at the right time?

In all too many cases, the answer to these questions is no. Retailers, in general, lag behind GM and other industry leaders in leveraging the supply chain's potential. The good news is there are some comparatively easy actions they can take—the "quick wins"—that can help turn their supply chain into a competitive advantage. These supply chain wins can be broadly grouped into three main action areas:

- Establish world-class supplier management.
- Optimize internal processes.
- Exceed customer expectations.

For a company like General Motors, world-class supplier management means that the seat supplier perfectly matches the seat color to the material provided by the fabric supplier and conforms exactly to the specifications of the seating frame supplier. GM and its many suppliers work together and communicate extensively through each step of the process. For retailers, world-class supplier management means working with suppliers to integrate each phase of the buying and delivery processes—all the way to the store shelves.

Optimizing internal processes really amounts to doing things in a way that produces the desired outcome in the most efficient and profitable manner. Imagine if a customer's special-ordered car arrived with the wrong color seats and without the requested sunroof. If the customer is unhappy with the car, it wouldn't matter if GM had reengineered its internal operations to deliver it within *three* days. The bottom line where optimizing internal processes is concerned must be the delivery of the right merchandise at the right time—as promised—to the customer.

Exceeding customer expectations means providing *all* corporatewide inventory to *all* customers *all* of the time—and letting them purchase those products the *way* they want and *when* they want. However, providing this extraordinary level of service comes at an operational cost. This is true in any industry. The central challenge for supply chain executives is to exceed customer expectations while at the same time paying close attention to profitability.

Each of the quick wins described in this article has widespread applicability. They are presented within the context of the retail environment but involve basic principles that can be applied in virtually any business sector. How organizations go about achieving these quick wins will depend on a number of variables, the most important being their current stage of supply chain sophistication. We have broadly grouped the retail organizations into three levels, which are depicted graphically in Exhibit 1:

Level One: Retailers that have yet to initiate basic supply chain best practices.

Level Two: Retailers that have begun to work on the best practices, both internally and with their supplier partners.

Level Three: Retailers that have perfected the existing best practices and are working with their supplier partners to forge even higher levels of supply chain performance.

Establish World-Class Supplier Management

QUICK WIN 1

Develop Collaborative Partnerships With Suppliers

If your suppliers are going to care about someone, make sure it's you.

Traditionally, the relationship between retailers and suppliers has been anything but collaborative. In fact, it has often been antagonistic. The objective must be to transform that often-rocky relationship into a true partnership.

Level One Retailers start by developing peer-to-peer relationships with their counterparts at their supplier companies. Here's an example of how this might work: A receiving manager in a large retail distribution center (DC) expects to receive a shipment of red shoes but receives blue shoes instead. The conventional response would be to conduct a manual audit and then issue a chargeback for the shipment. That impersonal administrative action may take weeks or even months to be completed. Within that period of time, multiple incorrect shipments of shoes may be sent. However, if the retailer's receiving organization has established peer-to-peer relationships with its supplier's shipping department, the problem can be communicated and corrected immediately. And the next shipment will be correct.

If a similar situation arises with *Level Two Retailers*, which already have established peer-to-peer relationships with their suppliers, collaboration may take a different form. An entry of the incorrect shipment of red shoes is made into the warehouse management system (WMS), which immediately notifies the supplier through linking EDI (electronic data interchange) or Web-enabled technologies. Within 24 hours, the chargeback can be issued and the subsequent shipments will be accurate.

Level Three Retailers, which are the most advanced, take collaboration one step further. They are able to integrate their people and processes with those of their suppliers so well that lines between the two organizations begin to blur. These relationships can span the entire supply chain—from the simple example of a snack-food employee stocking chips in a grocery store to the more elaborate collaborative programs such as VMI (vendor-managed inventory) and CPFR (collaborative planning, forecasting, and replenishment). Under the more advanced collaborative initiatives, retailers and suppliers share responsibility for all of the key supply chain components: planning, forecasting, product development, sourcing, order management, delivery, warehousing, and transportation. Retailers feed raw data on daily and weekly sales and inventory to their suppliers. They collaborate with suppliers to identify regional trends and store demographics. These sophisticated retailers understand that every supply chain process should be "owned" by the partner that does it most efficiently. This could mean that some processes traditionally owned by retailers might shift to the suppliers and vice versa.

QUICK WIN 2

Leverage Internet-Based Technologies

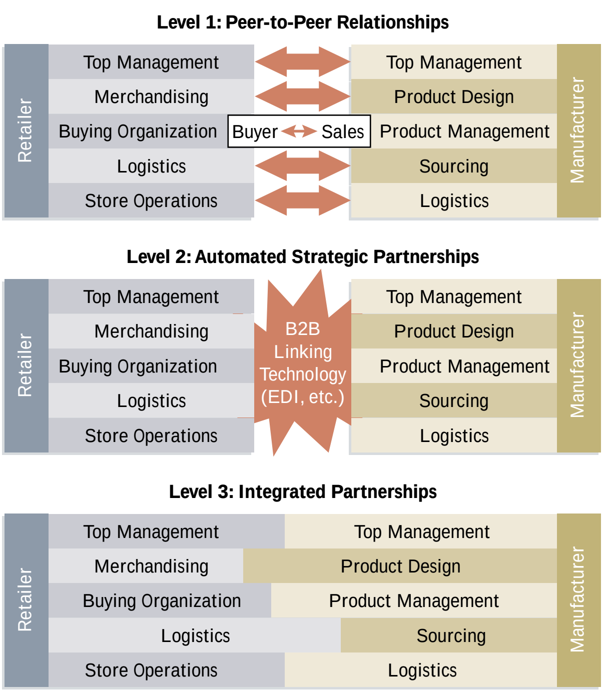
Use Internet-based business-to-business (B2B) technologies to improve your communication with suppliers.

Much has been written lately about business-to-business technologies. Some have said that the Web-based B2B solutions are similar to EDI or quick response (QR), as they incorporate many of the same principles and concepts. But comparing Internet technologies with QR or EDI is like comparing an Air Force fighter jet with a paper airplane. Both use the same principles to fly and both require thrust and lift, but their respective capabilities are completely different.

The range of B2B Internet technologies available today is wide, and the offerings are expanding every day. They include advanced solutions for collaboration and planning, event-management tools, and marketplace exchanges. However, as

EXHIBIT 1

Levels of Supply Chain Advancement



the various technologies become more robust, they also become more expensive.

Level One Retailers can take advantage of Internet solutions such as marketplace exchanges to get quick returns on investment. Logistics exchanges, for instance, provide a ready source for finding the best routing and price for outbound shipments. General Mills, to cite an example from the supplier base, saved $800,000 during its first year of participation in a logistics exchange. All that General Mills needed to participate was a connection to the Internet.

Level Two Retailers use the Internet to connect directly to and collaborate with their trading suppliers to track order status. If a retailer has a promotion coming up, it can communicate that information to all relevant suppliers instantly. That same B2B link can be used to relay additional information and monitor the merchandise's delivery status.

Level Three Retailers move even faster. They use the Internet to allow their suppliers to *manage* the flow of goods. Again, it is about giving responsibility to the suppliers and managing their performance through information linkages. For this kind of arrangement to work successfully, retailers must be willing to share information with their supplier partners. Among other things, this means letting the supplier know everything about sales plans and promotions, giving the supplier access to point-of-sale demand data for all of the retailer's stores, and immediately communicating any changes to the plan. All of this is done over the Internet. With such an open exchange of timely information, suppliers can do a better job of anticipating true demand and driving revenue growth.

QUICK WIN 3: Integrate the Logistics Organization With the Buying Decision Makers

To maximize profits and productivity, marry your logistics organization to your buying organization.

Buyers, by nature, tend to follow a time-honored principle: "Buy low, sell high." Accordingly, they like to buy in bulk to save money. If they can purchase one truckload of red shoes for $1 a unit and additional truckloads for 95 cents a unit, they'll buy five truckloads. Yet all too often these bulk purchasing decisions are made in a vacuum, with no consideration given to the ultimate supply chain costs. By the time those five truckloads are received into the distribution center, stored, moved, consolidated, counted, pulled, picked, packed, and shipped, all of the bulk-buy savings are gone (and we haven't even calculated the attendant inventory-carrying costs). Avoiding these kinds of situations requires close and continuous communication between the purchasing and logistics professionals within the organization.

For *Level One Retailers*, logistics-purchasing integration means that the logistics managers and buying managers work together to identify the right packaging, assortment, shipment sizes, and shipment methods for specific products. Whenever a decision to buy is made, the logistics manager should be at the table. The aim is to put ordering and logistics procedures in place that will reduce costs across the supply chain.

Retailers at Level Two seek to integrate their decision making through more sophisticated means. For example, the logistics managers and the buyers are collaboratively developing cost models that calculate total landed costs for all purchases *before* they are made. This results in decisions that make the most financial sense for the organization overall.

The objective must be to transform the often-antagonistic buyer-supplier relationship into a true partnership.

The integration at *Level Three* may be likened to a husband and wife who are planning their financial future. Before going to a financial advisor, the married couple agrees on certain financial parameters and goals. They then discuss those parameters and goals with the financial manager and allow the *manager* to pick individual stocks and investments that best meet their needs. In short, the married couple sets the broad requirements, and the financial expert executes against those requirements.

Translated to the retail world, the husband-and-wife analogy would play out as follows: The logistics and purchasing "couple" would both agree on key parameters and objectives on such issues as price point, efficient package quantity, delivery options, and expected sales margin. They would then relate these parameters to their supplier and ask the *supplier* to manage the merchandise flow in a way that would meet or exceed those requirements. This means assuring that the right items in the right quantity and at the right price point are on the retailer's shelves at all times.

QUICK WIN 4: Develop Optimum Replenishment Models

Move from a "push" to a "pull" approach to replenishment.

Instead of using unreliable forecasts and historical sales data to push product into the market, retailers need to let actual consumption drive the process. Here's a simple example of this concept at work: A boy is selling lemonade from a curbside stand that he has set up in front of his house. At his stand (store) the boy initially gets the inventory on the shelf by filling only one cup. If he were to pour all of the inventory into the cups, the lemonade would get hot, the ice would melt, and no one would buy his product. So instead, he places only one cup of lemonade on the table so people can see what he is selling, and he keeps the rest in the cooler. When a customer comes to his stand, he sells the cup on the table or pours a cup of cold lemonade from the cooler. As the lemonade in the cooler is depleted, his mom prepares a new batch inside the house. The boy is letting actual consumption drive the lemonade replenishment.

Many *Level One Retailers* are beginning to develop pull-replenishment models similar to the lemonade stand example. They are talking with suppliers about how to move inventory out of the retailer's stores and DCs and back to the suppliers in a way that will protect against stock-out conditions. In many cases, this means smaller, more frequent deliveries from suppliers. Retailers at this level are piloting pull-replenishment programs and investing in the information tools needed to make the program work.

Back at the lemonade stand, the boy may experience periods of peak demand—such as after baseball practice. He pays attention to the time of day these peaks occur, and he collaborates with his mom in advance to have two extra pitchers available during these high-demand periods. Mom watches the sales activity from the window and arrives with another pitcher whenever the supply at the stand runs low. This is exactly what *Level Two Retailers* do. They expect suppliers to know demand patterns and be ready to respond with different flows and shipment sizes. Just as the boy expects his mother to watch from the window, retailers at this level expect suppliers to monitor weekend sales numbers and respond on Monday if demand changes.

Optimized, synchronized, and customized channels provide outstanding customer service—but at a price.

Level Three Retailers take the replenishment model one step further and feed demand information to their suppliers' suppliers. When the boy runs out of lemonade, he then calls his dad and asks him to purchase more lemonade mix on his way home from work. In effect, the "pull" replenishment model has been extended upstream in the supply chain.

These four quick wins, grouped under *world-class supplier management*, share a couple of common threads. Specifically, they require close and continuous communication, both internally and externally, while forging new collaborative relationships with suppliers. However, communication and relationships alone will not give the supply chain a competitive advantage. The relationships now have to be *used* to *optimize internal processes*—the heading of our next group of quick wins.

Optimize Internal Processes

QUICK WIN 5

Measure Replenishment Cycle Times

By measuring your replenishment cycle times, you can begin to identify problem products.

High inventory levels and high out-of-stock percentages are the two main symptoms of products with cycle time problems. If an item such as the red shoes discussed earlier has a long replenishment cycle, buyers will tend to purchase and hold large amounts of inventory to ensure in-stock positions. This high inventory level is a signal that the order replenishment cycle times should be analyzed and appropriate corrective measures taken.

Level One Retailers focus their efforts internally by identifying those products that have high out-of-stock performance and high inventory levels, typically concentrating on the top five or so problem products. They work to figure out what processes could be reengineered internally to reduce order-cycle times and thereby address the out-of-stock and high-inventory problems.

Level Two Retailers expand this analysis externally to their suppliers, often developing a supplier scorecard to identify the specific product categories that cause problems. Retailers and vendors can work together to look at those products that are continually delivered late from the vendor or that require high inventory levels at the vendor. Jointly, they then can strive to reduce replenishment cycle times for those items for both retailer *and* vendor.

Level Three Retailers collaborate with their suppliers to identify not only the current cycle times but also the optimum cycle times for the entire supply chain—from point of manufacture to retail sale. The retailers and their suppliers then work together to achieve those levels at all points in the supply chain.

With this quick win, a company will identify the problem products requiring attention. With the next three quick wins, a company can begin to address those problem products.

QUICK WIN 6

Build Logistics Capabilities by Product Category

Flow each product based on its individual characteristics.

Flowing different products in the same way may not only be inefficient, it may also be harmful to the business. However, big retailers are not accustomed to handling product categories based on their individual characteristics. Historically, they have built one big "one-size-fits-all" distribution center through which everything flows. In some cases, this approach works; in others, it doesn't.

Product characteristics are not limited to physical characteristics expressed by such terms as *conveyable*, *non-conveyable*, *hazardous*, *full case*, and *piece-pick*. Just as important are the sales characteristics like *seasonality*, *promotionability*, *price point*, and *inventory turn*. Patio furniture is a good example. These items are bulky and awkward to handle (physical characteristics). In the spring months, they also are fast sellers (a sales characteristic). In developing the logistics flow for patio furniture, both characteristics need to be considered.

Developing multiple logistics flow capabilities can be complex and costly—especially for the *Level One Retailers*. The good news, however, is that an increasing number of options are available to address the flow of "problem" products like patio furniture. These options include, among others, consolidation and third-party logistics services, and direct-to-store shipping. Many retailers at this level have concluded that if they have trouble handling certain product categories, it makes sense to let a third party manage the flow.

But it's not enough just to create a special logistics flow for the problem products. The *Level Two Retailers* take the principle beyond problem products and begin to develop a network that flows *all* products based on their characteristics. Retailers at this level may, for example, cross-dock the patio furniture to reduce handling but hold inventory on the red shoes. This sounds like common sense, but it's surprising how many companies have *all* products unloaded, received, palletized, warehoused into inventory—and then pulled out of inventory, re-palletized, and shipped.

Finally, *Level Three Retailers* develop dynamic flow processes. When the product characteristics change, the flow changes. So in the spring when sales of patio furniture take off, these retailers may use deconsolidators to ship the furniture directly from the supplier to stores within a given region. In other seasons, however, they may flow the lesser volume of patio furniture required through their own DC. The flow changes with seasonality, promotions, and other variables. Constant communication with the supplier allows the supplier to ship this week's furniture to the central inventory and next week's directly to the store. This "on-the-fly" responsiveness gives retailers at this level a competitive advantage.

QUICK WIN 7 QUICK WIN

Work on the Incremental Improvements That Enhance Profitability

Aggressively seek out ways to improve internal and external variable costs and use fixed assets that will boost the bottom line.

To achieve the bottom-line benefits of optimizing the internal processes, retailers need to focus continually on improving internal variable costs, improving external variable costs, and fully utilizing fixed assets.

Level One Retailers typically focus on the internal variable costs. In their shiny new DC, for example, they might improve these costs by installing pay-for-performance programs, using advanced warehouse management systems, and implementing new wireless technologies such as radio-frequency ID tags.

Level Two Retailers are working to reduce their external variable costs. They analyze the key processes—product allocation, value-added services (price ticketing, hanging), assortment packaging, and so forth—to move each to the least expensive point in the supply chain.

Finally, *Level Three Retailers* use their fixed assets to the fullest extent, carefully avoiding both over- and under-capacity. Foremost among these assets are their capital-intensive distribution facilities. If a retailer believes it needs additional distribution capacity, it should stop and ask the question, "Can we do anything differently to meet capacity needs without adding a new facility?"

Alternatively, if a retailer has excess capacity, it should find creative ways to use that excess capacity. JCPenney, for example, has done this by in-sourcing its logistics capacity to other retailers.

QUICK WIN 8 QUICK WIN

Develop a Continuous Improvement Mindset

Don't stand still; keep reaching for that next level of performance.

We have identified three different levels of companies based on their use of supply chain best practices. It's important to know where the organization stands within that hierarchy. It's even more important to recognize that the organization can't afford to remain at that level. The ongoing objective must be to move up.

The question that supply chain executives in retail (or in any industry, in fact) need to ask themselves is this: "Do I have a plan to move from one level to the next?" Developing that plan means understanding where you are today, identifying where you want to be tomorrow, and mapping out the steps to take you there.

Exceed Customer Expectations

To this point, the focus has been on modifying the business processes by establishing world-class supplier management and optimizing internal processes. The last action area deals directly with the most important aspect of the supply chain—the customer. All retailers need to give their customers exactly what they want, how they want it. The key is to do it in a way that is *profitable.*

The last two quick wins will help retailers at all levels toward that end.

QUICK WIN 9 QUICK WIN

Prioritize In-Stock Positions

Make sure that you have the right inventory available to consumers. (Seventy percent of customers will go elsewhere if they don't find the products they need, according to Kurt Salmon Associates' research.)

Notice that the quick win says "prioritize" in-stock positions and not "increase" in-stock positions. Prioritizing is a two-step process for each product category: (1) determining lost sales from not having an extra in-stock position and (2) determining the costs of having that extra position.

Before retailers reengineer their buying and logistics practices to increase in-stock positions, they first need to understand the sales *lost* by not providing that extra in-stock position by product category. The difficulty of this task varies by sales channel. For example, a direct-to-consumer business that sells red shoes over the Internet can readily identify the sales lost due to out-of-stocks. If the buyer specifically asks for a pair of red shoes and that item is not available, then the online retailer knows that the sale is lost. In fact, it's very common for an online or direct marketing company to track this "shadow demand."

Determining lost sales in a physical store is not so easy. When a consumer goes into a mass retailer's store to purchase red shoes, there is usually no one standing at the shoe display to see if the desired item is in stock. And there's no mechanism to determine if the consumer purchased shoes of another color instead. Further, it's hard to know whether the consumer returned to purchase the red shoes later.

Though difficult to do, measuring sales lost to out-of-stock

positions by product category is a critical activity. For certain items, such as those with a high profit margin, it's important to strive for 100 percent in-stock availability. Other items, such as staple items (the "bread and milk" items), need to be in stock to keep customers coming back to the store. If a store runs out of the basics, it may lose the sale not only on those items but also on others that the customer would normally pick up while in the store. And if a retailer is out of those items too many times, it may lose the customer for good.

The second part of prioritizing in-stock positions (and this is where the supply chain professionals come in) is to understand the costs associated with obtaining that extra position. In many cases, these costs can be substantial. As the actual in-stock position moves closer to 100 percent, it becomes more and more costly to obtain that incremental in-stock percentage.

So, retailers need to understand the relationship between the sales opportunity *lost* and the *cost* of increasing an in-stock position. Product categories where the sales opportunity lost costs more than that in-stock cost, or categories that are essential (bread and milk), are prioritized and put at the top of the list.

QUICK WIN 10 — Optimize Customer Channels

Allow consumers to buy products the way they want and when they want.

Optimizing consumer channels means giving customers multiple purchase and delivery choices. These include:

- Purchasing from catalogs and having items shipped directly to their home.
- Purchasing on the Internet and being able to pick up the merchandise at stores.
- Purchasing at stores and having the item shipped to their home.
- Any combination of the above.

Optimizing consumer channels means making *all* inventory available to *all* customers *all* the time. If a retailer does not provide these multiple channels and seamlessly meld them into one experience, the consumer will go somewhere else.

Optimized, synchronized, and customized channels provide outstanding customer service—but at a price. The challenge for the supply chain executive is to find channels that display these qualities while at the same time remaining profitable. For instance, Wal-Mart plans to let customers order tires online and schedule installation in the stores. The inventory is maintained at the DC and then sent to the stores just in time for installation. This will be a profitable delivery process because Wal-Mart effectively combines two channels (stores and the Internet) —and the tires are not being shipped through the mail!

> **Those organizations that fail to share information** will find themselves with a shrinking piece of the pie.

Collaboration Is the Key

When you look at these 10 quick wins together, three imperatives emerge for retailers that can also be applied to other industries:

1. Allow suppliers more responsibility in the supply chain while maintaining control through relationships and technology.
2. Use relationships and technology to improve processes continually and increase profitability for each product category.
3. Provide *all* inventory to *all* consumers *all* the time ... *but only if it is profitable.*

The vision of using the supply chain as a means of competitive advantage can only be realized by opening the organization in both directions—to the vendors/suppliers and to the consumers. This openness implies a willingness to ask external and internal partners to participate actively in many of the supply chain decisions previously viewed as parochial. Vendors that are provided with both information and accountability can better respond to specific needs and help drive profitability. Similarly, consumers, when given appropriate inventory access and choice at all points in time, will choose the fulfillment channels that best fit their needs—and reward retailers for providing those channels.

Retailers are not the only ones that can use these quick wins. Any company that is required to move information and product from point A to point B will improve its business when all parties collaborate. This has been demonstrated in many business sectors, not just in retailing and manufacturing. Consider the airline industry, where all airlines pool together schedule and price information to maximize service to the consumers and drive profitability. Similarly, in the mortgage loan industry, consumers can get on-line quotes from multiple lenders at one time. Those organizations that continue to keep information to themselves, to control their "fiefdoms" without external participation, and to dictate to consumers how and when they will buy will find themselves with a shrinking piece of the pie. One only has to look at the many recent examples in retailing. The companies succeeding are those leading the collaboration effort.