

Survey of Supply Chain Effectiveness



Survey of Supply Chain Effectiveness

Prepared by Kurt Salmon Associates for



FOOD DISTRIBUTORS INTERNATIONAL



FOOD MARKETING INSTITUTE



GROCERY MANUFACTURERS OF AMERICA

Contents

Executive Summary	v
Chapter 1. Business Landscape	1
Chapter 2. Planning and Forecasting	7
Chapter 3. Order and Inventory Management	13
Chapter 4. Transportation	19
Chapter 5. Distribution Center Operations	23
Chapter 6. Store Operations	29
Chapter 7. Performance Metrics	31
Appendix. Roadmap to a Better Supply Chain	33

Executive Summary

Food Distributors International (FDI), Food Marketing Institute (FMI) and Grocery Manufacturers of America (GMA) established a member-driven task force to examine ways in which grocery manufacturers, wholesalers and retailers can work more effectively to improve productivity and service levels while reducing supply chain costs.

Kurt Salmon Associates (KSA) was selected by the task force to develop and administer a survey, which was conducted Spring 2002. The survey was structured around 60-90 minute telephone interviews with senior distribution, logistics and supply chain executives at more than 30 target companies selected by each of the sponsoring organizations.

The following is a representative list of companies included in the survey:

Food Distributors International

Associated Grocers, Inc.
Bozzuto's, Inc.
Fleming Companies
Nash Finch Company
Roundy's, Inc.
SUPERVALU INC.
United Western Grocers

Food Marketing Institute

Brookshire Grocery Company
H.E. Butt Grocery Company
Hannaford Bros. Co.
Hy-Vee, Inc.
Meijer, Inc.
Shaw's Supermarkets, Inc.
Wegman's Food Markets, Inc.
Publix Super Markets, Inc.

Grocery Manufacturerers of America

Colgate-Palmolive Company	Nestlé USA, Inc.
Diamond of California	Pfizer Consumer Healthcare
H.J. Heinz Company	Quaker Foods
Hershey Foods Corporation	S.C. Johnson & Son, Inc.
Johnson & Johnson	The Dial Corporation
Kimberly-Clark Corporation	The J.M. Smucker Company
Nabisco, Inc.	The Proctor & Gamble Company
Nestlé Purina Company	Welch Foods, Inc.

The survey was designed to understand current successful practices and anticipated evolution in broad areas of supply chain operations including:

- 💡 Business landscape
- 💡 Planning and forecasting
- 💡 Order and inventory management
- 💡 Transportation
- 💡 Distribution Center (DC) operations
- 💡 Store operations

The key theme, expressed by the majority of participants, focused on the *availability* and *application of retail store-level information* as the key building block supporting supply chain evolution.

Most retailer/manufacturer relationships are largely blind to shared information describing consumer demand at store and SKU level. As a result, the supply chain has developed from the foundation of — and remains primarily anchored to — the buyer-seller relationship that rewards activities primarily focused on merchandise cost and volume, not consumer demand.

“DC turns are good, but we need to understand the balance and measure store service at the SKU level.”

— Survey Participant

The lack of an accurate and timely flow of store-level consumer demand information is the most visible cause of the key issues identified by a majority of survey participants including:

- 💡 **Shelf in-Stock** — Most retailers do not know what is on their shelves. Many survey respondents realize that the lack of available *inventory*, *sales* and *forecast* data inhibits the development of true collaboration supporting the kind of planning and execution that could dramatically improve in-stock performance.

With recent industry studies putting out-of-stock levels at 7 percent or higher for some industry categories during peak periods, customers are shopping for an estimated \$20 billion in groceries they cannot find in their preferred stores.

Virtually all participants indicated that an in-stock rate at shelf-level is a key performance indicator and should be the metric of choice to evaluate the effectiveness of the supply chain. Few participants were actively measuring in-stock rates at shelf-level, and many referred to public studies to quantify the severity of the problem.

Most distributors and retailers capture distribution center fill rates as a measure of service to retail stores. The visibility of service within the store itself, however, is limited.

- 💡 **Trust** — Retailers described a fundamental lack of trust that is preventing them from developing true partnerships with their vendors.

Most manufacturers and retailers said *internal* efforts underway focus on develop-

ing shared performance goals and metrics across functional areas tied to overall business performance.

Almost none of the companies responding to the survey have extended these efforts to include their trading partners, although most understand that a common basis of shared metrics supported by an increased flow of timely, accurate information is the fuel that drives supply chain efficiency.

Inefficient Supply Chain Operations — Conflicting incentives and insufficient, inaccurate and untimely information result in excess inventory and a number of operational inefficiencies. Survey participants noted that these factors have a dramatic impact on manufacturing operations, retail DC and store productivity and in-stock performance.

Data Synchronization — Survey participants cited information shortfalls and the need to synchronize data as key issues. Respondents are aware of global efforts pushing toward the development and adoption of standardized protocols for the synchronization of data, which, according to UCCnet, could save a single manufacturer \$25 million annually.

A majority of survey participants highlighted the need to develop and implement industrywide standards supporting synchronization of information between trading partners.

Flow-Through Distribution — The current grocery supply chain operates on a replenish-from-DC model. In this model, merchandise is received to reserve storage and is subsequently dropped into pick slots from which selectors pick cases for individual stores. The current process results in a number of issues identified in the survey by many retailer and manufacturer respondents, including:

- **Dock Congestion** — Management of the space and resources required to unload, and, in many cases, reconfigure merchandise for put away to reserve storage causes congestion affecting receiving turnaround.
- **Storage Space** — Many retailers are struggling to find the space at peak periods to store their entire inventory and are forced to resort to off-site storage. In addition, many retail DCs are slot-bound, or lack the floor-level space necessary to store all SKUs being replenished
- **Inbound Shipment Visibility** — Many retailers are not aware of pending manufacturer deliveries early enough to implement effective receipt scheduling. In addition, buyers typically lack visibility of DC operations, preventing them from seeing the impact of their decisions on DC flow.

Several retail survey respondents have piloted the concept of flow-through distribution — also called cross docking — bypassing traditional processing. Flow-through distribution requires the retailer to work up front with the manufacturer to create shipments

“Technology is not the barrier — it is the store paradigm. Change management will be key.”

— Survey Participant

“Distribution and sales have a relationship. We want to turn it into a partnership.”

— Survey Participant

based on anticipated store requirements. When these shipments are received at the retail DC, cases are immediately sorted to a store pallet rather than being received to reserve storage.

Flow-through distribution reduces dock congestion and results in the following benefits:

- 💡 Reduced DC inventory
- 💡 Reduced DC labor
- 💡 Reduced DC space requirement
- 💡 Better communication and relationships between manufacturers and distributors

In addition to these major issues, a significant number of survey participants identified the following areas as critical to improving supply chain efficiency:

Store-Level Forecasting — Specifically, the development of tools and processes to forecast accurately at the store level and to manage the volume of data generated by forecasting at that level

CPFR Value Proposition — Many participants identified the need to define the business case for collaborative planning, forecasting and replenishment (CPFR) relationships between trading partners. This is particularly relevant given the belief expressed by many participants that CPFR primarily benefits the manufacturer and that traditional vendor-managed-inventory-type programs have already delivered much of the potential benefit of CPFR without the cost.

Chapter 1. Business Landscape




Top Three Issues

All of the participants were asked to identify the top three issues their organization would face over the next three to five years. Responses covered a wide range of topics. However, some key themes emerged:

Percentage of Respondents Identifying Issue

	Manufacturer	Retailer	Distributor
Technology	53%	0%	0%
Cost Reduction	41%	50%	38%
Inventory Turns	0%	33%	0%
Consolidation	18%	0%	38%
Labor	18%	33%	13%
SKU/Category Management	13%	33%	0%
Competition	24%	0%	50%

Manufacturers identified the following gaps in current technology as a particular concern:

-  Retail store out-of-stock measurement
-  Retail store demand forecasting
-  Standardized processes and tools for using trading exchanges and registries to facilitate data exchange with trading partners

Retailers and wholesalers appear to be adopting a wait-and-see attitude toward technology issues, believing that manufacturers and mass merchants will determine the course. These distributors said they see a great deal of risk associated with investing in solutions that could end up not being compatible with overall industry evolution.

Also, wholesalers and retailers noted that they are most concerned with cost reduction and on the availability and quality of store labor.

Consolidation

The majority of participants indicated that they expected consolidation to continue at the manufacturer, wholesaler and retailer levels.

Respondents said consolidation will bring a number of changes to supply chain-trading partners. Numerous participants said to expect fewer trading partners to deal with on both sides of the aisle. It is important to note that while the majority of participants

“Our top 20-30 suppliers represent 75-85 percent of our volume.”

—Retailer Survey Participant

“...[It comes as a surprise to us, but] we have gone from 1271 {suppliers} down to 1076 in one year.”

— Retailer Survey Participant

indicated that they expected to have fewer trading partners, a number of retail participants said they expect growth of specialty and local suppliers as more targeted merchandising evolves.

Respondents identified the following advantages and disadvantages of consolidation:

Advantages — Advantages include reduced headcount and streamlined processes as companies integrate operations. Also, there are fewer systems with which to integrate as trading partners consolidate.

Disadvantages — Companies will face the challenge of merging internal processes and systems while still trying to focus on implementing external trading partner programs. Also, there will be no “minor” missteps, as partners will be forced to develop strong connections based on industrywide standards.

Increased Need to Collaborate Internally — Consolidation will provide a unique opportunity for businesses to share successful practices across divisions and combine efforts on major initiatives. Survey participants recognize that consolidating operations takes time and sometimes results in no change in the efficiency of logistical operations.

Most respondents indicated a strong need to develop more cross-functional connections and metrics within their companies as a prerequisite for fostering better external relationships with trading partners.

“Consolidation represents the good, the bad and the ugly. Fewer players lead to greater efficiency, but it is harder to be a material part of a much larger organization.”

—Retailer Survey Participant

Mini Case Study

Consolidation Presents Supply Chain Problems

A retailer asked for the ability to consolidate loads from a manufacturer’s two recently merged divisions — both of which handled similar product lines. The manufacturer said no. Reason: While the two distribution centers were in close proximity, the manufacturer said it would take six months to get to the point where both systems and processes could support order consolidation.

Another retailer — representing a single part of a recently consolidated multi-banner parent company — described frustration with manufacturers that assume that consolidated retail chains all operate the same. The retailer said there would still be a requirement for banners of consolidated retailers to behave individually to service specific markets or deliver against an every-day low-price (EDLP) vs. high-low operating philosophy.

Increased Importance of Relationships — With fewer players, the dynamics and leverage between players will change over time, according to survey participants. In addition, as customers deal with fewer and fewer vendors, the expectations for support will increase.

Increased Importance of Supply Chain Efficiency Efforts — Participants expect to gain synergies in purchasing, procurement and transportation based on consolidation of retail and manufacturing companies. The extent to which a company will be able to capture these efficiencies, however, will vary widely and is determined by factors such as what operations are centralized and how customers adjust to the new consolidated entity.

Culture — Both sides of a consolidating company will be affected by cultural issues as they integrate operations, respondents believe. This will affect the speed of response in developing external relationships. Respondents involved in these consolidations are sometimes seeing their companies struggle to define a post-consolidation culture.

Resources and Maintaining Distinctiveness— Resources of companies involved in consolidations will be initially focused on internal integration leaving less time and fewer resources to devote to external projects, according to numerous survey respondents. However, for some retailers, consolidated operations allow for increased efficiency. Consolidation also eliminates the ability to leverage local / regional distinctions, such as promotions and micro-merchandising, to a local and/or distinctive population.

Mini Case Study

One Success Story, One Frustrating Weekend

One manufacturer and its retail trading partner worked on improving lead-times by synchronizing order windows. The companies found an opportunity to cut one day out of the pipeline by aligning retail store polling and manufacturer order cut-offs more efficiently.

Another retailer described a promotion that performed much better than expected, leaving stores empty before a critical weekend period. The retailer was frustrated by efforts to obtain replenishment merchandise from a manufacturer that closed its operations on weekends.

Channel Evolution and Alternate Formats

Recent estimates indicate that mass merchandisers and club stores now account for 15 percent of total grocery volume. And market share for these alternate channels continues to grow. Traditional grocers are facing a number of challenges competing with the mass/club channels, according to survey participants.

Retail participants realize that they would have to compete with these channels on service and selection rather than price. It follows, these retailers contend, that there is a need for manufacturers to provide programs and processes accessible to the broadest range of retail customers. At the same time, participants realize there is a need to standardize the building blocks of trading partner communication to reduce costly “one-off” solutions.

A challenge for manufacturers cited in the interviews is continued diversification across channels. As more products are offered through non-traditional channels, more complexity is added to supply chain operations. Participants expect channel-blurring to continue as all retail formats increasingly expand their product offerings.

Category Evolution

Survey participants expressed opinions in two primary areas of category evolution:

SKU Proliferation — In general, participants indicated they expect an overall increase in SKUs despite a greater focus on category management and SKU profitability. Many retailers, however, believe that, while overall SKU counts will increase, individual store SKU counts will decrease as a result of better tailoring of assortments to local market needs. Overall, SKU increases are expected to put pressure on category managers to reallocate space.

Retailers generally indicated a trend toward decreasing SKU counts in dry grocery, with increasing SKU counts in perishables, frozen and prepared foods.

Branded vs. Private-Label — Retailers expect increased private-label focus. This will include private-label branding of individual products and categories, as well as bundling private-label merchandise with national brands across categories.

Most manufacturers participating in the survey are not active in private labeling for reasons including capacity, resources and business strategy.

Technology

The evolution of technology throughout the supply chain is an ongoing concern for many participants. Issues range from integrating existing systems after consolidation, to dealing with customers that have diverse technological capabilities, to determining where to 'place our bets' relative to emerging technology.

"We have looked at {private label, and it} is simply not the business we are in. It does not fit with our overall strategy."

— Manufacturer Survey Participant

PARTICIPANTS COMMENT ON TECHNOLOGY

Technology Raises Numerous Concerns

Manufacturer and retailer survey respondents expressed widely varying opinions and concerns on the current state of technology implementation and usefulness in the industry and on the prospects for emerging technology.

One retailer described the level of technology adoption in the industry as "1950's technology meets 2002 requirements," noting that the industry needs to play leapfrog in levels of technological advances.

A manufacturer said that even if retailers gave its company real-time information, "we would probably have to read it because we couldn't integrate it."

Another manufacturer cited the need to "leverage our existing ERP" before developing new applications. "We have not used it to our complete advantage."

On data synchronization, one company said: "It's the Holy Grail, but not a competitive advantage. It will be the price of admission."

On industry exchanges, one company noted: "We were a founding member of {XYZ} Exchange, but we have not signed up for anything {services} yet." Another company executive commented that the company did not join an exchange "for all the wrong reasons — but the decision turned out to be the right decision."

In general, manufacturers have developed capabilities — such as advance ship notice/manifest (ASN), UCC-128, electronic data interchange (EDI) and so on — that retailers are not fully utilizing. Most manufacturers expressed surprise that their retail partners are not asking for more.

Exchanges — The jury is still out on exchanges, according to survey participants. A majority of participants describe themselves as sitting on the sideline, looking on with skepticism and waiting to see what the major players are going to do. Some participants are developing internal capabilities to work with whatever technology ends up emerging. The primary use of exchanges so far is in purchasing of supplies, commodity products and transportation services, according to survey respondents.

Implementation of electronic product catalogs is seen as the first step. Several manufacturers described investments they are making to develop internal e-commerce data interchange capability that will allow communication with multiple exchanges or interface points using industry-developed standards.

Global System Standards — As trading partners become more global, the need for global standards increases. Many participants highlighted the need for global data standards as a key requirement to realize the full potential of future initiatives.

Chapter 2. Planning and Forecasting

Survey participants shared information on the internal and external aspects of collaboration, on CPFR, VMI, CRP and the technologies that enable them all.

External Collaboration

The need for better relationships with key partners was identified by a majority of participants as a critical aspect of their future operations. Many participants indicated this is driven by factors including consolidation and the need to lower costs and provide better service to the consumer. Participants also indicated that, although some progress has been made, much remains to be done.

The primary external challenge in collaboration is establishing trust between trading partners. Many retailers expressed concern that any data they might share would either be shared with other retailers or be used by the manufacturer to compare performance with other retailers, resulting in a loss of competitive advantage.

“Past relationships were more stress-based. Things are more collaborative now.”
— Survey Participant




Mini Case Study

Routine Meetings — Smooth Partnerships




One retail survey respondent said the company established routine meetings with the senior management of its top 20 manufacturing partners. The retailer found that these high-level

meetings led to improved relationships and have provided the foundation for investigating additional collaborative programs.

Some external challenges to collaborating with trading partners cited by survey participants include:

-  Entrenched paradigms requiring all communication between trading partners to funnel through retail buyer and manufacturer sales organizations.
-  Industry inertia retarding efforts to apply available systems and technologies.
-  Scalability of collaboration programs affecting ROI.

Participants indicated that trading partner readiness to enter collaborative relationships is evaluated based on three criteria:

-  Is the volume right?
-  Are the tools / capabilities right?
-  Is this a trading partner we can trust?

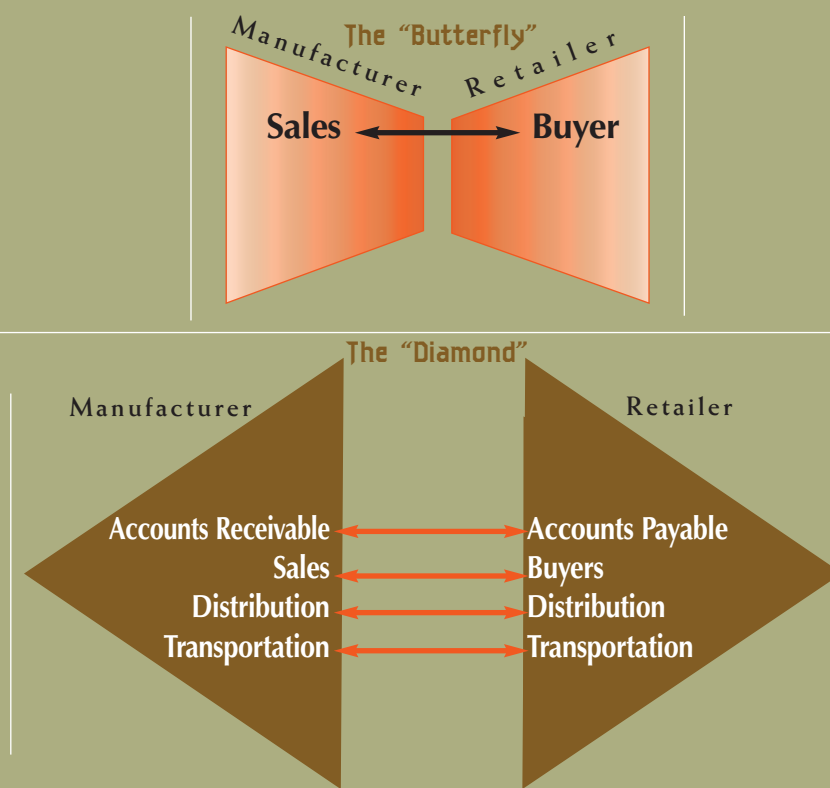
A number of participants — primarily manufacturers — indicated that they are more ready than their trading partners to participate in collaborative relationships. Many also

expressed concern that trading partners underestimate the resources and costs involved in setting up collaborative programs. One respondent said: "Sometimes the spirit is willing, but the resources are not."

Respondents believe that trading partners must be comfortable sharing information and that they must dedicate the resources to supporting the development of collaborative programs.

Several manufacturers said that CPFR initiatives should first be implemented with industrial customers (e.g., raw material suppliers) because they represent processes and volumes that are better understood, less complex and less variable. Additionally, most manufacturers indicated that these relationships are frequently easier to control, particularly when a single supplier is the source for a large percentage of given product.

Most participants recognized the need to move from single-function relationships across their organizations (buyer and seller) to multi-functional collaboration between trading partners. One participant described this as "moving from a butterfly structure to a diamond structure."



Many manufacturers said they have established cross-functional "client" teams providing for a single point of entry and accountability in managing key customer relationships.

Internal Collaboration

Participants indicated that collaboration with external trading partners was either hampered or enabled by their own organization’s ability to collaborate internally.

Some participants said their company needed to work on its own operations before entering into collaborative arrangements with trading partners. A number of participants highlighted frustration with their current internal management processes that fail to establish one common goal for the entire organization to pursue.

Internal challenges to greater collaboration cited by participants include identification and implementation of the necessary tools and resources. In addition, wholesalers and retailers indicated that changing the store mindset is a major obstacle.

“We need to have our own house in order before we start inviting the neighbors over.”
— Survey Participant

“We need to get {planning} down to one number. We have three; we need one. Finance, sales and operations each have their own number. We need to come up with one number that all of us can live with.”
— Survey Participant

Mini Case Study

Retailer Increases Forecast Accuracy

One retailer noted that organizational initiatives should first be implemented with its own manufacturing partners (private-label, etc.), which represents a captive audience where a common goal is obvious.

Another retailer implemented an internal planning process using consensus forecasting (sales, finance

and manufacturing) to increase forecast accuracy from 70 percent to 80 percent.

Many manufacturers and retailers have established internal cross-functional, supply-chain-development teams to integrate the planning and movement of data and merchandise.

Survey participants noted that tools are available to assist in planning, but point out that the data required for the tools by retailers often are not available or accurate. Where retailers developed tools and processes for providing store-level demand data, many manufacturers found that their systems and processes are not capable of using the data.

Wholesalers dealing with small chains and independents said they face even stiffer challenges, given the variety or lack of system interfaces and greater reluctance on the part of their customers to invest in systems.

“I’ve got great (retail) demand information {in the form of 852 product activity data document transactions reporting distribution center withdrawals}. The issue is getting the data into my manufacturing stream.”

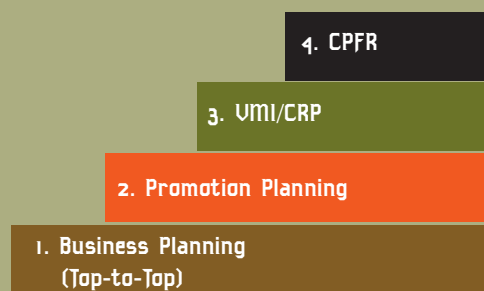
— Survey Participant

Collaborative Planning, Forecasting and Replenishment

Very few traditional grocery retailers are currently involved in formal collaborative planning, forecasting and replenishment (CPFR) initiatives with manufacturers.

On the other hand, manufacturers are focusing their in-depth CPFR development efforts on their larger, more technologically advanced mass merchandiser partners.

A number of participants mentioned that they see four levels of collaboration, stating that some trading partners are trying unsuccessfully to jump into CPFR before laying the necessary groundwork. Most participants on both sides believe that trading partners need to work their way up to full-blown CPFR in logical steps, such as those below:



A number of participants said they have piloted CPFR initiatives with selected trading partners. The majority, however, have adopted a wait-and-see posture. Concerns range from partner readiness to technology to ROI, and, even where successful pilots have been completed, concerns over scalability and broad implementation remain.

Participants in pilot programs have seen the expected benefits of CPFR including:

- 💡 Decreased inventory (better turns)
- 💡 Increased forecast accuracy
- 💡 Better service (fully stocked at store level)
- 💡 Increased sales
- 💡 Better overall relationships

“What is the incremental gain of CPFR over CRP or vendor-managed inventory? With many retailers moving more than 50 percent of volume through VMI programs, the incremental returns of CPFR aren’t always obvious.”

— Retailer Survey Participant

The problem for many participants is that they have experienced similar benefits in the implementation of much less costly vendor-managed-inventory programs and struggle to see the long-term incremental benefit of CPFR. In addition, the cost/benefit balance of CPFR efforts is not clear to retailers at this time.

Additional concerns center on retailers’ ability to forecast at store level, particularly given differences in store formats and sizes and the sheer amount of transactional data involved.

"We compared the 852 product activity data document transactions to the POS," said one manufacturer. "There was no correlation."

One retailer, on the other hand, noted: "Warehouses are a testament to our inability to forecast." This comment acknowledges shortcomings in retailer processes and systems that result in excessive DC inventory. In addition to the lack of store forecasting, other issues identified by retailers as having an impact on inventory levels include forward buying practices and poorly executed economic order quantity (EOQ) programs.

Manufacturers in particular identified the issue of how to deal with store-level data from multiple retailers, each of which may communicate using somewhat different protocols.

Manufacturers have done the math:

30,000 SKUs X 100 stores X 50 customers X 365 days = a lot of data.

Many participants see the challenge as one of developing processes to collect data from those customers with volumes large enough to make a difference to manufacturing economics, and then to develop systems for exchanging and acting on the data.

MINI CASE STUDY

Three Different Steps

A retailer used POS data to create a 28-day forecast resulting in reduced inventory and increased stock at store level. The company is pleased so far but acknowledges it "is step one of a 10-step program."

A major manufacturer, set CPFR goals that focused on promotions management for large customers, covering every aspect down to the store level (dis-

plays, timing, quantity, etc.). The effort resulted in increased lift (2x) and turns (2x).

One manufacturer has focused primarily on the collaborative planning part of CPFR. The company currently has collaborative planning activities with partners representing 90 percent of volume and believes that customers are now more interested in CPFR.

Most manufacturers indicated that the typical 14-28 day retail planning horizon makes CPFR difficult. Some expressed a desire to see traditional grocery retailers move more toward a mass retail planning model, relying on fewer "buying" periods and much longer planning horizons (13 weeks/26 weeks/52 weeks).

Most of the manufacturers surveyed said they wanted to *plan* at some level with *all* of their partners, but that CPFR would only make sense with those with volumes large enough to materially affect their operations.

Further, several manufacturers said they did not need forecast data to predict non-promotional demand for high-volume SKUs with very stable demand patterns. Retailers saw this reticence to pursue full-blown CPFR as an indication of lack of interest on the part of manufacturers.

"You can do this without making it a technology adventure — the CP = 80 percent, the FR = 20 percent. You don't need technology for the CP."

— Retailer Survey Participant

"The success trigger for CPFR – am I in-stock and is the customer taking the product away faster?"

— Survey Participant

"We need to simplify the business so we can implement and automate CPFR."

— Survey Participant

"I don't need a (retail) forecast when I already have a 90 percent accurate forecast for a product like XYZ."

—Manufacturer Survey Participant

Technology

Participants highlighted the lack of technology to support planning and forecasting efforts in today's industry.





A number of participants said they were not aware of a store-level forecasting engine that would meet their needs at this time. Currently forecasting remains primarily a manual task.

VMI/CRP/CMI

Vendor-managed inventory (VMI), continuous replenishment programs (CRP) and co-managed inventory programs (CMI) were highlighted by most participants as the key first steps towards CPFR. These three programs are widely used by manufacturers and retailers, with fewer implementations by wholesalers.

A number of manufacturer participants said they find more interest in VMI programs coming from traditional grocery channels rather than alternate channels (drug, convenience).

These programs allow manufacturers to determine replenishment quantities based on visibility of withdrawals as communicated by the retailer. Participants noted that typical benefits experienced by partners engaged in VMI programs include:

-  Reduction in inventory
-  Increase in inventory turns
-  Increase in sales
-  Reduction in retail out-of-stock

Retailers said they are seeking to maximize the volume managed under VMI programs to gain the maximum benefit from inventory reduction and service increases.

Manufacturers, on the other hand, said they are generally trying to limit VMI to no more than 50 percent of volume because higher levels do not affect manufacturing planning while adding significant additional cost.

"We made it scalable for our trading partners so they could get an ROI."
— Retailer Survey Participant

Chapter 3. Order and Inventory Management

Manufacturers identified two key challenges they will need to overcome to tie information from vendor-managed inventory programs into the manufacturing process.

- 💡 **Critical Mass** — Manufacturers noted that they would need to convert 40-50 percent of volume to VMI / CRP / CMI programs in order to affect their manufacturing processes.
- 💡 **Systems** — Even if critical mass is reached, participants said in many cases the systems and standards are not in place to flow information from the retailer into the manufacturing planning process.

Mini Case Study

Different Order & Inventory Management Examples

One manufacturer reduced volume under VMI programs from 43 percent to 25 percent by eliminating “poor” partners and programs that did not make sense. Another manufacturer agreed with this philosophy, indicating that it had taken on too many VMI customers.

Several retailers noted the need to stay very close to their vendors to ensure that their replenishment decisions made sense. One retailer describes the need for “co-managed” as opposed to “vendor-managed” inventory programs as a way to enjoy the benefit of manufacturer expertise while maintaining a “veto” function over final order quantities.

VMI programs resulted in significant decreases in their order management efficiency (as a result of dedicated resources required to support the programs), noted one manufacturer. However, the supplier still actively pursues VMI programs based on the benefit of better relationships, better understanding of the trading partner’s business, decreases in returns and unsaleables and the opportunity to realize more efficient product movement.

A small manufacturer was skeptical of the benefits of VMI until required by a large customer to participate. Using the customer’s systems, the manufacturer reaped significant benefits.

Category Management

Retailers expressed the need for category captains to ensure that they work to maximize category profitability. Some point out that this could result in a given category captain’s shelf space shrinking while delivering increased profitability to the overall category.

Manufacturers recognize the pressure being felt by retailers to manage SKU counts. As more retailers embrace category management programs, manufacturers must find ways to demonstrate the profitability of their products over that of the competition.

Traditional menu pricing and buying programs have led to excess inventory situations that affect overall category profitability. With increasing focus on category and SKU activity based costing (ABC) and profit contribution measurement, manufacturers must re-evaluate programs to encourage behaviors that will lead to profitable sales.

“Once an SKU is in a store it is difficult to remove, and is often political.”

— Retailer Survey Participant

“A wholesaler needs to be all things to all people, leveraging requests for new items across customers. The challenge is balancing the need for variety against manufacturer pricing structure.”

— Wholesaler Survey Participant

“The vendor is most efficient by ‘one size fits all.’ At retail, everything is custom. So at what point do you customize and at what cost?”

— Survey Participant

SKU Rationalization

SKU management continues to be a challenge for many manufacturers, wholesalers and retailers. While many participants indicated that SKU rationalization is an ongoing initiative that requires regular attention, others said they had previously gone through major rationalization initiatives and believe their SKU management is under control.

There remains the tension of balancing new product innovation with the need to carry fewer SKUs to reduce costs and complexity in the marketplace. As a result, retailers say they are focusing more on profitability, although most have not yet developed robust tools and processes for measuring SKU-level profitability.

As retailers target merchandising to focused market segments, store-level SKUs may decrease. In fact, one retailer interviewed said the company expects store-level SKU count to decrease by up to 20 percent. However, this same retailer has seen total SKUs increase.




There is a general expectation that SKUs will grow as market-specific merchandising continues but that dry grocery and health and beauty care (HBC) categories will shrink to make room for “local” SKUs and an increased focus on perishables, frozen and fresh/prepared foods.

Retailers said they are increasingly using sophisticated store-level planograms to deal with SKU growth at a micro level.

Customization

Customization was a common theme throughout the interviews. Two different types of customization were highlighted by participants: *product* customization and *order* customization.

Product Customization — Examples cited of product customization include:

-  Products made specifically by a manufacturer for a customer.
-  Unique packaging differentiating the same product sold to multiple customers.
-  Co-packing products together to create a unique bundle.

Manufacturers generally indicated a willingness to work with trading partners on customization efforts but sometimes struggle with customers on the cost impact of customization.

Mini Case Study

Manufacturer Customization

One manufacturer indicated that up to 30 percent of volume was modified for customers — generally through packaging — after manufacturing either in-house or at a third-party facility.

Manufacturers are working with retailers to find ways to introduce more accuracy and efficiency into the store replenishment process. Several manufacturers cited packaging featuring 24 unit cases with tear strips to convert them to 12s.

One manufacturer created floor-ready displays with multiple SKUs allowing retailers to reduce restock time from 30 minutes to five minutes.

A major manufacturer worked with a retailer to customize pallet unit loads of product for a retailer that could be moved directly from receipt to a retail store trailer. The effort resulted in increased sales for the manufacturer and decreased inventory and handling for the retailer.

Another manufacturer indicated that the pendulum had swung too far in the direction of encouraging customers to buy full pallets/full trailers. While the manufacturer realizes the need to revamp its menu-pricing programs to provide more options, it also knows it must balance this need against its infrastructure that has been built over years to operate in a “bulk” shipment mode.

Participants indicated that finding the correct point for customization and finding an equitable way to address the cost of customization are ongoing issues.

Order Customization — **Order customization includes efforts to streamline product movement** through programs such as store-specific shipments. Most participants said they had worked with trading partners on order customization, particularly in the areas of promotional displays and seasonal sets.

Very few retailers have adopted order customization techniques to their turn inventory programs. For turn inventory, most retailers are still pursuing vendor incentives around full-trailer delivery and bringing merchandise into retail DC inventory.

“Shipping smaller batches more frequently is the future, but it is tough if manufacturing is set up exactly the other way.”

— Survey Participant

Layer/Pallet Buying/Selling Strategies

Most retailers and wholesalers said they are looking for increased flexibility in ordering, while manufacturers want consistent order quantities that allow efficient manufacturing and truckload transportation. A consensus emerged that current incentives result in excess supply chain inventory.

Several retailers and manufacturers said they have implemented economic order quantity modeling (EOQ) to evaluate the impact of SKU-level buying decisions. The primary benefit of these programs — they noted — is that it takes the guesswork out of the equation and allows the retail buyer to make an informed decision based on all the cost factors throughout the supply chain.

Mini Case Study

Buying and Selling Strategies Have Mixed Results

One manufacturer cited buying/selling strategies as its biggest frustration. The company is encouraging customers to buy more while customers are looking to take inventory out of the system.

Another manufacturer has developed several preset mixed SKU pallets that can be ordered. While this has benefited some customers, the problem is that the mix required from store to store varies widely.

One partnership focused on coordinating the ordering of promotional and seasonal sets. Better understanding demand patterns allowed the trading partners to schedule deliveries efficiently, as opposed to planning the entire shipment for a single delivery date and having three trailers sit in the yard.

Scan Based Trading/Consignments

Scan based trading (SBT) and consignments are not yet heavily adopted in the industry, a number of survey participants pointed out. The greatest opportunities for scan based trading, according to survey respondents, are in direct store delivery (DSD), magazines and greeting cards.

Manufacturers are generally not enthusiastic about SBT based on issues including shrink, tax implications, damages, liability, etc.

Menu Pricing

Perspectives on menu pricing programs were varied in the survey. Most participants found benefits in programs providing cost breaks for encouraging certain behaviors. Concerns were expressed, however, on how the programs were implemented.

Many retailers spoke of a desire for manufacturers to provide menu pricing that reflects each retailer's own individual capabilities and efficiencies. Several retailers expressed frustration that manufacturer menu pricing options build in the inefficiency of other retailers, unfairly punishing a more progressive retailer.

"We need to de-couple product and logistics costs."

— Manufacturer Survey Participant

"Many vendors have their own eight to 10 point pricing programs all based on different measures (from other manufacturers). It makes it difficult to concentrate on everything."

— Retailer Survey Participant

Most participants on both sides do not understand SKU-level cost structure well enough to support decision making. This is of particular concern in the area of transportation, where many suppliers build transportation into the cost of goods, making it difficult to break out. The result is that many retailers have little visibility over what inbound transportation costs actually are.

Wholesalers and retailers expressed hopes that manufacturers would provide more tailored menu alternatives as well as more flexible application of vendor-sponsored resources (trade spending, customer service).

Technology

VMI /CMI/CRP — There are many options for systems supporting managed inventory programs. Vendor or customer systems are used depending on trading partner agreements. In addition, some participants without the internal capabilities said they have outsourced VMI.

One survey participant, in fact, said: “We don’t care whose systems we use. Ours, theirs — it doesn’t matter.”

Point-of-Sale — All retail respondents said they have point-of-sale (POS) systems. Few, however, are using them to support forecasting or perpetual inventory programs. A number of retailers voiced concerns regarding the integrity of the data that will need to be addressed prior to using the information in tandem with a perpetual inventory or computer assisted ordering (CAO).

Computer Assisted Ordering — Computer assisted ordering (CAO) is not commonly used. Those companies interviewed, however, that have implemented it said they are pleased with the results.

E-Commerce — A number of participants are building e-commerce capabilities — either stand-alone or those that will interface with a common platform — to share information with their customers.

Chapter 4. Transportation

Operations

The primary focus by survey participants on transportation issues across the industry centered on increasing transportation asset utilization and minimizing transportation exposure through initiatives including the following:

Centralized Procurement — A number of participants on both sides of the supply chain indicated they had implemented centralized procurement and core carrier programs to leverage transportation costs. By concentrating management in a single location and examining all network decisions together, participants said these efforts have been successful in lowering rates and increasing asset utilization. The limits, however, of such programs will drive the need to look for additional ways to reduce transportation expense, some participants noted.




Backhaul / Customer Pick-Up (CPU) — Manufacturer perspectives on backhaul / CPU varied widely. They ranged from “As long as they meet the same requirements we have for our transportation providers for being on-time with the correct equipment, etc., it is fine.” to “No, we want to control our own freight.”

The majority of manufacturers surveyed have no issue with CPU. Manufacturers that maintain control of freight said their ability to obtain better rates and the restrictive equipment requirements — such as specific temperature control, door types, trailer length, etc. — were the two major factors influencing their concern over CPU.

Among retailers, a broad trend toward controlling inbound freight whenever possible can be seen. Current levels of control range from 10 percent to 70 percent of case volume with most respondents in the 30 to 50 percent range.

More significant than the current levels of CPU was the focus on increasing the amount of freight controlled by retailers. The vast majority of wholesalers and retailers indicated that this is a key initiative in reducing transportation expense.

The reasons retailers gave for controlling inbound freight include:

-  Better asset utilization
-  Better control of receipt scheduling at the DC
-  Speed of receipt

Customer pick-up programs also help retailers avoid detention, unloading and lumper charges, participants noted.

“Our transportation rates are as low as they can go. Further reductions will have to come from reducing the number of moves.”

— Retailer Survey Participant

“We collaborate now with continuous moves. In the future, it may be shared dispatch.”

— Survey Participant

Mini Case Study

Transportation Moves Differently in Different Companies

A retailer survey participant realized a six percent discount by taking over the transportation of a given vendor and converting the vendor to UCC-128 bar coding. The change allowed the vendor to eliminate nine vehicles.

One wholesaler has worked with a mass merchants to set up a triangular movement to maximize asset use. Under the program, the wholesaler delivers to the mass merchant's store, picks up from mass merchant vendor, delivers to mass merchant DC, picks up from wholesale vendor and returns to wholesale DC.

A great deal of unease is found among survey respondents regarding the motives of manufacturers that do not want to turn over control of freight. For example, one large retailer believes that some manufacturers do not want to be converted to backhaul because the large retailer volume is subsidizing transportation to that vendor's smaller customers in the same geographic area. Another bone of contention is the fact that vendors tend to be closed on weekends. One retailer finds that when it delivers to a store near a vendor on weekends, it cannot backhaul without dropping a trailer because the vendor is not open on Saturdays and Sundays.

The most significant issue relative to backhaul / CPU programs among survey participants was the pick-up allowance provided by the manufacturer. Most retailers do not believe manufacturer pick-up allowances reflect the true cost of transportation. In many cases, they say, manufacturer pick-up allowances appear to be based on averages across all manufacturer shipments that unfairly penalize some transportation lanes over others. One retail survey participant said: "There have been lanes where we have done the math and turned the freight back over to the vendor, and three months later, they came back with a new allowance."

Virtually all manufacturing participants indicated a strong willingness and desire to work out realistic pick-up allowances for retailers that want to move to CPU. Manufacturers did express frustration, however, that some retailers compare the manufacturer pick-up allowance with rates quoted by carriers incapable of meeting manufacturer guidelines for product handling.

In addition, manufacturers expressed the need to include certain allowances for accessory charges, fuel surcharges and value-added services on top of pick-up allowances.

Continuous Moves — Trading partners said there is an increased focus on generating continuous moves and an increased willingness among trading partners to find creative solutions for keeping vehicles fully utilized.

Consolidation — Efforts to consolidate less-than-truckload (LTL) shipments into truckload (TL) shipments are ongoing and have been very successful over the past few years, according to survey participants.

"Our goal is the 100-percent-consumable truckload."

— Survey Participant

Technology

Transportation Management Systems (TMS) — Most participants on both sides said they had implemented TMS systems. They see the benefits primarily in outbound transportation, although a number of participants expressed a desire to extend the capabilities to include inbound operations. Key functionality being used includes load building, vehicle maintenance management and yard scheduling.

Exchanges — A number of participants on both sides reported using transportation exchanges for meeting spot requirements in selected transportation lanes. Several respondents reported using Web-based point solutions to manage opportunities for backhaul and continuous movement.

Visibility (Product Tracking) — A number of participants have implemented systems to enhance load visibility from point of shipment to point of delivery using satellite tracking. This is particularly prevalent for perishables, survey respondents said.

Chapter 5. DC Operations

Internal





Dock Congestion

Overcrowding of retail DC receiving docks was identified by a number of participants as an issue resulting in inefficient operations and increased costs. Retailer perspectives on dock congestion ranged from “it’s a major problem” to “it’s not a problem at all.”

“Those with dock congestion issues bring it on themselves with poor buying strategies and poor receipt planning and scheduling.”

— Retailer Survey Participant

Participants identified a number of causes for dock congestion:

-  **Scheduling** — Buyers may over-schedule the receiving dock on certain days due to lack of visibility of inbound loads and the impact on dock operations.
-  **Buying Strategies** — Buying in inefficient quantities can lead to a significant amount of sorting on the dock prior to put away. Smaller buy quantities drive more handling if trading partners are not flexible with pallet configurations, survey respondents said.
-  **DC Capacity** — Many retailers reported periodic dock space shortages requiring use of outside warehousing.
-  **Slotting** — A number of retailers reported the need to down-stack pallets on the receiving dock because vendor pallet heights do not match DC rack configuration.

MINI CASE STUDY

Delivery Dilemmas

One retail participant described a situation in which three different buyers each scheduled 10 shipments for delivery on one certain Friday — or a total of 30 deliveries when maximum capacity on the dock is 25 trailers a day. None of the buyers

could visualize the impact their actions may have on the overall scheduling/DC capacity, etc.

Another retailer reported receiving a truckload shipment that was split into 137 pallets on the dock.

There does not appear to be a consensus of the cause or solution to the issue of dock congestion. Manufacturer and retailer participants, however, said they have adopted a number of coping strategies to address the issue, including:

Systems — An enhanced systems functionality provides buyers with visibility of scheduling information.

Buying Strategies — Collaboration between retailer and manufacturer resources across functions results in alternative buying programs and provides flexibility in SKU order quantities — all of which makes for more efficient shipments.

Transportation — Increased retailer control of inbound freight results in better scheduling and more productive dock operations, a number of participants contend. The majority of participants, on both sides of the supply chain, agree with the move toward retailers controlling freight — provided the retailers use equipment in compliance with vendor requirements.

Slotting

Survey participants indicated several strategies related to slotting:

- 💡 Reconfiguration of the rack to handle multiple pallet heights based on “typical” vendor pallet TI/HL, which participants said also improves dock congestion.
- 💡 Shifting some high-cube loads to floor loads and purchasing equipment to handle it.
- 💡 Scrubbing slotting data that has become ‘muddied’ over time to maximize use of slots available.

One retail logistics executive described an interaction with his CEO concerning frustration over manufacturer pallet heights. The CEO directed the DC to reconfigure to support a wider variety of vendor pallet heights so that time spent arguing with the manufacturer could be converted to more productive sales and merchandising discussions.

Internal Processes — According to industry executives interviewed, many companies have reviewed their internal processes to ensure they are as efficient as possible. One company reviewed a single manufacturer providing 125 SKUs — only 25 of which could be put away with no-touch. The company reviewed its own internal processes and implemented process changes. Result: 95 of the 125 SKUs could be put away with no-touch.

Collaboration — Trading partners working together to establish compatible pallet heights, buying strategies and scheduling practices. Also, they are working together to set up drop trailer programs to eliminate detention charges. Retailers indicated a willingness to pay extra for a manufacturer to palletize layers of a given product category rather than paying for lumpers to unload the trailer.

Vendor Penalties — Survey participants said vendor penalties provide incentives to retailers — even if dock congestion is an issue, a particular supplier’s loads will be prioritized in receiving (e.g. two-hour unload, no detention charges, no laborers, etc.).

Scheduling — One retailer reported converting its receiving day shift to a 2 AM to 10 AM shift to reduce overlap with shipping, thus reducing dock and yard congestion.

Flow-Through Distribution / Cross Docking

Many retailers reported experimenting with some form of flow-through distribution or cross docking as a means of moving merchandise directly from receipt to store. According to survey participants, current efforts are primarily manual and target promo-

tional, seasonal and high-cube merchandise. The highest success rate has been seen with promotional merchandise and private-label products. Among participants, there remains a great deal of skepticism regarding scalability of flow-through and cross-dock programs, plus a concern for getting the timing right.



MINI CASE STUDY

The Consumable Trailer & Other Flow-Through Examples

“The Consumable Trailer:” One retailer established a cross-dock program for 40 meat SKUs. In this program, the retailer provides store orders on an overnight basis, which are picked and delivered the next day by the vendor to the retail DC. All merchandise in the trailer is “pre-allocated” so it can be moved directly into a store outbound trailer or staged until that store is loaded. Virtually no merchandise is put into inventory.

Another retailer has implemented a system allowing for calculation of a store-level demand forecast — accounting for shelf stock, in-transit and forecasted sales. The retailer places a consolidated order based on this demand forecast and then allocates the night before delivery based on manufacturer-provided ASN data. Upon receipt, merchandise is sorted directly to a shipping trailer with any small residual quantity put away in inventory.

Challenges reported that prevent more widespread adoption of cross docking and flow-through programs include:

-  Retail process and systems supporting store allocation prior to receipt.
-  Requirements for shipment ASN and carton labeling.

Labor/Productivity

A number of participants indicated that availability and quality of DC labor is a major concern. To address employee recruiting and retention, many companies have implemented programs focusing on providing a great deal of training and follow-up early in an associate’s career. The goal is to eliminate the scenario wherein a new hire spends a half a day with the human resources department and in the afternoon is trying to figure out selection.

To address productivity issues, a number of participants have implemented labor standards. Standards are most widely used in selection, with some companies also using them in put away and let down. Monetary incentives are not widely used and typically apply only in selection.

External

Manufacturer, wholesaler and retailer survey participants all see the need to continue to review network configurations and options to provide efficient service at the most economic cost. Some commented that companies need to develop the business case for a more responsive network. Other respondents said the industry needs to reduce excess capacity in the supply chain, reduce redundancy and cut back inventory to improve operations.

And how to do this? A number of alternatives were identified including:

Multi-Tier Networks (Based on Velocity) — A number of retailers described initiatives to separate SKUs by velocity (one even indicated they expect a shift towards separate promotional and replenishment DCs). Numerous benefits are highlighted by those that have already implemented slow-moving facilities including:

- 💡 Increased ordering efficiency
- 💡 Ability to buy slow-movers in better brackets, as a result of consolidated volumes
- 💡 Reduced safety stock inventory
- 💡 Productivity increases in high velocity facilities resulting from “getting the slow movers out of the way”

Mini Case Study

Special Attention to Slow-Movers

One retailer decided not to establish a separate distribution center (DC) for slow-moving products but has revised the way they pick slow-turning merchandise in the traditional DC. In this example, the retailer places slow-movers in a 25-foot-high narrow aisle carton rack and picks merchandise using an order-picker truck. This provides a similar productivity ben-

efit by segregating slow movers from the pick path of the fast-moving items while not requiring addition of new facilities.

Several retailers have located DCs for slow-movers near centralized GM/HBC facilities, implementing consolidation programs to increase store shipment sizes.

Third Party — Several participants commented on third-party solutions for slow-moving merchandise. Manufacturer participants tended to consider this concept both good and bad — efficiency is possible but suppliers lose control. Some think that it is being organized / driven from the wrong end of the supply chain.

Outstanding questions raised by participants include:

- 💡 What happens to supplier programs when a retailer sources merchandise from a third party? Is the efficiency gained worth the loss of vendor programs?
- 💡 Will splitting volumes from some suppliers result in lost discounts (missing a bracket)?
- 💡 What happens if a large number of a region’s volume ends up being handled by a third-party provider that both sides are concerned may be putting “too many eggs in one basket?”

Technology

EDI — There is almost universal adoption of EDI transactions for certain activities involving ordering and invoicing.

ASN/UCC-128 — ASNs and UCC-128 bar coding are available from all manufacturers surveyed. However, virtually *none* of the retailers who participated reported requiring vendors to provide either ASNs or bar coding.

Voice Selection — A number of participants said they have implemented or are in the process of evaluating voice selection. They note that benefits have included reduced error rates and increased selection productivity.

Radio Frequency Identification (RFID) — A number of manufacturers report that they are working with development teams on RFID technology. No participants expected to see broad application within the next five years. Many stated, however, that they “know the technology is out there, being developed.” Some participants said RFID could have a large impact on retailer efforts to establish perpetual inventory processes and manage the quality of POS data.

Automated Storage and Retrieval (ASR) — Participants indicated that they did not expect a migration towards ASR equipment within the next five years. It is interesting to note that one participant highlighted the potential value of denser storage options without going all the way to ASR (narrow aisle high bay).

Chapter 6. Store Operations

Manufacturer, wholesaler and retail participants all recognize the need to flow merchandise through the supply chain to the store more efficiently. Most believe that “the last 100 feet” of the supply chain from store receipt to the shelf represents both the highest supply chain cost and the biggest customer service risk.

Participants identified a number of initiatives aimed at improving store operations including store delivery enhancements, store- and aisle-specific pallets and shelf-ready merchandise.

Store Delivery Enhancements

Retail participants indicated the need to better manage delivery to stores. This specifically relates to overcoming the idea that “more service is better” and to understand more completely the costs associated with service. A typical retailer is making 38 deliveries per week across categories with pressure to add multi-deliveries per day for grocery and perishables.

“I thought delivering seven days a week would meet store requirements. Just when I get there, they are asking for two deliveries a day.”

— Distributor Survey Participant

MINI CASE STUDY

Delivery Windows Efficiency

To manage store delivery better, one wholesaler participant said the company is providing incentives for off-day delivery and adopting certain delivery windows. The goal is to ensure that fresh and perishable products are delivered during “golden hours.”

A retail participant reported that his company is converting traditional direct store delivery (DSD) to a distribution center flow-through model to reduce the number of shipments received at stores.

Store/Aisle-Specific Pallets

Retailers typically align their distribution centers to support selecting by store aisle or product family. The challenge of accomplishing this increases as variability in store formats increases. In addition, being able to group product by aisle in the DC is seen as one of the challenges to introducing automation in the DC.

One retailer survey participant said his company has introduced an automated, multi-level process of sorting that allows merchandise to be sorted first by store and then by store category to result in pallets that approximate the store planogram.

Shelf-Ready Merchandise

Survey participants provided many examples of promotional displays and shelf-ready merchandise. The benefits of manufacturer-prepared displays and shelf-ready packaging were reported primarily in the area of reduced store handling. Also, participants noted that issues relating to shelf-ready packaging did not result in product damage, and, at the same time, retained shelf appeal.

A number of participants indicated that the majority of problems in servicing the store shelf occurred in the last 100 yards of the supply chain. To address this challenge, these participants have implemented programs to review processes and identify the root causes of problems.

One manufacturer survey participant said the company recognized that one of the problems in servicing this last 100 yards of supply chain could be the increasing diversity in the store's workforce. The company's solution: implement multilingual packaging to help ensure accuracy in shelf stocking.

Chapter 7. Performance Metrics

While participants described the use of a broad spectrum of metrics supporting performance measurement, several common themes emerged.

The need for metrics to be aligned cross-functionally was identified by a number of survey participants. Participants indicated that making the transition from silo-based metrics to cross-functional measurements is challenging and needs top-management support and commitment.

Store Shelf Out-of-Stock — Out-of-stock conditions on store shelves were highlighted by manufacturers and retailers as the key metric for tracking overall supply chain performance.

A few participants have initiated programs to track in-stock performance at the shelf level, although these programs tend to be very manual and labor intensive. For manufacturers tracking store-level out-of-stocks, several indicated that “seeing the numbers {that out-of-stocks cost companies} scares them to death.” The vast majority of participants do not track or have access to store shelf in-stock data.

A number of retailers use third-party shelf audits to support store and regional out-of-stock management. One retailer said the company uses a third-party system for measuring out-of-stock. In this system, an auditor walks the floor with a hand-held device that displays the planogram and compares it to the shelf. More typical out-of-stock measurements programs rely on periodic “hole” counts — a program in which a person walks the aisles and looks for the ‘holes’ in inventory and records the information.

Other Metrics — Other metrics highlighted by a majority of participants included:



Cost Metrics

- Turns
- Cost-per-standard measure (labor cost per case, cost per mile, etc.)



Service Metrics

- Fill rate
- On-time delivery
- Selection accuracy
- Perfect order metric

“Not everybody is on board, but we are working on it. I may sub-optimize distribution to optimize the supply chain. It is hard when they chew you out for adding a nickel a case in distribution expenses when landed cost is reduced by a dime.”

— Survey Participant

“In an industry chock full of metrics, the key metric is the one we don’t track — store-level service.”

— Survey Participant

“DC turns are good, but we have to understand the balance and measure store service at the SKU level.”

— Survey Participant

Appendix: Roadmap to a Better Supply Chain

Survey participants identified several programs and projects that could be included in charting a roadmap of improved industry supply chain operations in the near future. These comments were collated and analyzed by project coordinators at Kurt Salmon Associates and include ways in which grocery manufacturers, wholesalers and retailers can work more efficiently to improve productivity and service levels while reducing supply chain costs. Analyst suggestions are based on respondents comments and reflect suggestions and recommendations made by participants.

Organization

Develop Optimal Cross-Organizational Structure and Metrics — Analysis of the interview data suggests that many companies would like to see better organizational structures in place for both manufacturers and retailers/wholesalers for supporting more collaborative supply chain operations.

Some participants indicated they would like to see reviews that would extend beyond defining organization to include evaluation of the best set of metrics for supply chain trading partners to share and how to capture, report and manage performance against these shared metrics.

Additionally, survey analysts said the logical next step would be an assessment of successful practices for managing “new” cross-functional relationships, describing ideas for periodic top-to-top and functional-level interaction between key trading partners.

Information Flow

(Including issues identified in the planning and forecasting, plus order and inventory management sections of the interviews.)




CPFR Value Proposition Modeling — Many participants felt the need to define the business case for CPFR relationships between trading partners, outlining the expected costs and benefits of CPFR programs for a variety of scenarios. Some believed that by taking a very quantitative, case-study approach, the goal would be to dispel the belief expressed by many retailers that CPFR programs benefit only the manufacturer.

Survey analysts noted that this effort would need to begin with an assessment of the costs and benefits of VMI/CRP/CMI programs, providing a base from which the incremental impact of CPFR can be understood by various participants.





The results of this modeling could be general guidance to a variety of manufacturers and retailers on how to approach development of VMI and, especially, of CPFR relationships since one size very definitely does not fit all.

Data Synchronization Planning — Some participants indicated data synchronization planning would define and assess costs and benefits of alternative strategies for implementing various data connectivity programs between trading partners.

While data synchronization planning would not replace efforts of various regional and international organizations working to standardize communication protocols, it would examine a number of alternative approaches for dealing with data synchronization issues, including:

-  Use of internally developed exchanges
-  Linkage with public exchanges
-  Use of UCCnet either with public or private exchanges






Survey analysts said data synchronization planning also would define activities that could be supported using various business-to-business (B2B) technologies with an assessment of the costs and benefits of implementing each type of program. Examples of the kind of B2B functionality that companies could explore include:

-  Electronic catalogs
-  Auctions
-  Commodity procurement
-  CPFR

SKU Profitability Modeling — Survey analysts note that, based on participant responses and indications, some steps might be taken by companies on SKU profitability. Analysts could suggest establishment of a holistic model, based on investigated successful practices for determining SKU profitability for the entire supply chain. Factors that could be included in developing this model would include considerations around economic batch sizes, order quantities, transportation efficiencies, receipt processing and inventory handling costs, store shelf-space management, etc.






Menu Pricing/Promotions Management — Survey participants indicated a belief that menu-pricing programs need to be updated to reflect the realities of a more collaborative supply chain. Survey analysts note that interested companies could develop a generic template for a menu pricing program, resulting in incentives leading to optimizing overall supply chain efficiency.

To develop this template, survey analysts said an assessment of activity based supply chain costs could be completed to establish the baseline for understanding the benefits of various menu pricing alternatives. Components of this generic menu-pricing model could include:

-  Truck load vs. LTL order quantity
-  Pallet vs. layer order quantity
-  Unloading allowances
-  Product program considerations
-  Backhaul/CPU allowances and strategy

EOQ Modeling — A number of survey participants on both sides of the aisle pointed out that they have developed tools to assist in understanding the impact of various procurement decisions on supply chain costs.

As an outgrowth of the menu pricing review, survey analysts note that interested companies could develop a generic model for identifying economic order quantities based on factors including:

-  Bracket pricing
-  Vendor allowances
-  Transportation costs
-  Processing and inventory holding costs
-  Store shelf replenishment costs

Store-Level Forecasting — A number of participants expressed interest in store-level forecasting. Survey analysts note that the key building block, along with perpetual inventory systems, supporting more collaborative planning is the implementation of robust store-level forecasting processes.

Analysts said interested companies could define requirements for a store-level demand-forecasting engine capable of combining the impact of actual sales, planned promotions, actual inventory and in-transit inventory.





Merchandise Flow

(Including issues identified in the transportation and DC operation sections of the interviews.)







Customer Pick-Up Allowances — Virtually all of the retailers surveyed indicated a strong desire to increase the percentage of inbound freight they control. However, many expressed concerns over current manufacturer practices in setting pick-up allowances. Analysts note that interested companies could review pick-up allowance practices with the goal of producing a model showing the calculation of manufacturer pick-up allowances, given a variety of typical load characteristics and route considerations. This model could serve as a template for trading partners to use in guiding the discussion around CPU, survey analysts said.

Centralized Transportation Management — Participants were interested in issues to cut transportation costs and better manage transportation operations. Survey analysts note that companies interested in taking action in this area could document successful practices in transportation management, describing the benefits possible through centralizing management of transportation operations.

They also note that interested companies could examine the costs and benefits of various transportation technology applications, providing a document that could be used by partners in assessing what level of technology is most appropriate for their situation. This review would include an assessment of the following specific technologies:

-  Transportation management systems
-  Vehicle tracking systems
-  Transportation exchanges
-  Internet-based, third-party logistics services

Retail DC Flow-Through Applications — A number of participants reported they have experimented with flow-through distribution (cross docking). Survey analysts note that those companies seeking to investigate opportunities for replacing traditional replenishment programs with flow-through/cross-dock programs could:

-  Investigate of current flow-through/cross-docking applications including assessment of costs and benefits.
 -  Promotional merchandise
 -  High cube/high volume turn stock
 -  Traditional turn stock
-  Document of the process flow required to support expanded flow-through/cross-docking operations.
-  Investigate of tools and systems required to support expanded flow-through/cross-docking operations.

Low Velocity Strategy — Manufacturer, wholesaler and retailer participants all expressed concerns for new programs on the industry's slow-moving products. Some survey participants and analysts noted that companies could establish a generic value proposition around the concept of separating low velocity merchandise into stand-alone facilities.

Included in this review could be an evaluation of the total supply chain costs and benefits of new formats represented by third-party consolidators of multi-vendor low velocity merchandise.

Individual Performance Measurement Program Evaluation — Some participants expressed concern over individual performance measurement programs, and survey analysts said perhaps those companies would be interested in documenting benefits associated with different approaches to individual performance management. Specified emphasis could be placed on the implication of developing standards and paying incentives in non-traditional functions outside of retail selecting.

Dock Congestion — Participants all appear to be well aware of the industry's problem of dock congestion. Survey analysts said that companies interested in attacking this challenge could investigate and catalog the reasons for retail receiving dock congestion and could prioritize issues based on the cost/benefit for implementation. (A comprehensive list of the specific issues related to dock congestion was presented in the body of this document, see page 29.)

Brainstorming on RFID — Survey analysts note that companies interested in further exploration of radio frequency technology development could explore potential applications for this technology in their companies. They could also seek to document readiness issues that could affect grocery industry early adoption of RFID technology.

Store Operations

Out-of-Stock Measurement — This was an area of key interest among participants. Survey analysts said interested companies could outline the requirements and work towards development of tools and processes required to standardize, measure and report on store out-of-stocks.

Perpetual Inventory Systems — Survey analysts suggest that participants and others interested in improving their companies' perpetual inventory systems draw on successful case studies and proven practice experiences from other companies to define alternatives and cost/benefits of perpetual inventory systems and the process changes required for their implementation.

Computer Assisted Ordering (CAO) — As with the above, interested companies could draw on successful practice experiences and case studies from other companies to describe alternatives and cost/benefits associated with implementation of CAO programs.

Store-Ready/Shelf-Ready Replenishment — Survey analysts said that companies interested in improving supply chain logistics could draw on successful practice experiences — both domestic and international — to describe opportunities for increasing store and shelf readiness of merchandise.



201 Park Washington Court
Falls Church, VA 22046
703-532-9400
www.fdi.org



655 15th Street, NW
Washington, DC 20005
202-452-8444
www.fmi.org



1010 Wisconsin Avenue, NW
Washington, DC 20007
202-337-9400
www.gmabrands.com