

Meeting Challenges

Facing health, environmental and security challenges, speakers at the CIES IT and Supply Chain Conference in Geneva addressed topics such as RFID, VMI pooling, the paperless supply chain, business transformation and counterintuitive retail models. **David Dalton** reports.



'Dark' Future Filled With Dilemmas

Looking ahead at 'the consumer of tomorrow', futurist Bob Johansen warns that we are reaching a "sustainability tipping point" brought on by "diseases of abundance" in developed markets.

Johansen, of the Institute For The Future, cites an IFTF 10-year forecast – "the darkest we've ever done" – and cautions: "If your products are not perceived as 'healthy', they won't be chosen."

Very few companies now feel capable of achieving anything on their own and Johansen foresees the creation of "multi-developer innovation zones", citing P&G's 'connect and develop' strategy as an example of this.

The Internet has up to now been "the world's largest market test" but cyberspace is going to be replaced by a concept he terms the 'geoweb', where the physical meets the virtual. "As geoweb meets innovation, it also meets risk," says Johansen, who predicts that some innovation will be "dark innovation".

"This is a new world of risk and you're in the middle of it. The stakes are going up and your networks are more vulnerable."

In his forecast Johansen envisages a 'VUCA' (volatile, uncertain, complex, ambiguous) world in which we are faced with dilemmas that cannot be solved like traditional problems. This VUCA world rewards "clarity, even if it's wrong, and punishes "fuzzy thinking"; rewards quick decisions but punishes judging too soon; and rewards networks but punishes hierarchy.

"Organisations will need to recruit agile people skilled in dilemma management rather than simply problem-solving skills."

Planning for Everyday Disasters



Wal-Mart's response to Hurricane Katrina has profoundly affected the company's culture, such that it is harnessing technology to predict sales more accurately and manage logistical challenges that happen every day.

The key is 'accurate information' across the supply chain and Chrys Tarvin, Vice President, Global Supply Chain, believes that the introduction of RFID represents "a positive direction". RFID has been introduced into five distribution centres and 475 stores, with three million tagged items per week. Results have included a 26% improvement in the out-of-stock position, while tagged out-of-stock items are replenished three times faster than non-tagged items. There has also been a 10% reduction in manual ordering.

Tarvin looks forward to benefiting from a 65% read rate improvement from Gen 2 equipment and expects more than 600 suppliers to be involved by January, 2007.

RFID Benefits 'Real and Attainable'

As one of the retail pioneers of RFID, Marks & Spencer's Head of Supply Chain, Logistics and IT for Food, Ian Mumby, speaks with authority when he says that RFID is delivering value. "The benefits are real and attainable," he says. "Tag performance is not an issue – it's an excuse."



Tag readers now cost less and are more mobile, meaning that you need fewer of them. Nevertheless, you still need to choose technology partners carefully. "Neither of you know enough about your internal processes," he reasons. In managing the additional data, Mumby suggests that RFID adopters must decide where the value is – for M&S in food it is at the tray level, not the item level.

Intake progress has been positive, with 1.8 million tags written and read every week, compared to 75,000 a week in October 2005. Read rate is up to 98.5%, with 99% the next target threshold, and pallet compliance at 90%. One supplier has effectively paid for compliance by being able to eliminate date-life rejection entirely.

The latest phase involves 15 stores and three depots. While it is not yet possible to identify increased sales or improved on-shelf availability, benefits have emerged in unexpected quarters, such as a reduction in waste levels. Mumby explains that RFID highlights errors more quickly, allowing a new pick to be made in 12 hours – instead of 48.

Carrefour Pooling Update



As Supplier Interface Director for Carrefour, Xavier Hua is a regular advocate of collaboration – not least in the areas of pooling and consolidation of suppliers' deliveries. For instance, in Poland Carrefour has eliminated DC inventory through a combination of pooling and cross-docking, at the same time cutting out-of-stocks by half and achieving a double-digit reduction in overall supply chain costs.

In France the company has achieved a 20% reduction in inventory at DCs. A shared VMI pooling initiative in France, in conjunction with Cadbury and Sara Lee, has been particularly successful, achieving 99% case fill.

The main benefit of shared VMI, says Hua, is that it is "transparent and reliable". The partners have virtually eliminated empty truck space and doubled deliveries.

Now, with the operation handling 500,000 pallets a year, they are looking to find new partners to reach 1 million pallets – seen as optimum scale for pooling in France.

The partners moved from a dedicated logistics network to a shared logistics network and the operation needed a neutral provider for truck optimisation. "Pooling implementation can be driven by any party involved," says Hua, noting other lessons learned from the French initiative. "If you push it down to store level, you can really benefit from end-to-end supply chain optimisation."

VMI Helps Handle Complexity

German pharmacy chain dm drogerie markt is a long-time convert to vendor managed inventory but Logistics Director Michael Kolodziej urges that it should be just one part of greater collaboration between retailer and supplier, aimed at serving the consumer better.



"Partners sit together and think that 'my profit is your loss,'" he says. "That it is not the right approach."

Having started with Colgate 10 years ago, dm now has 17 VMI partners, which represent 20% of turnover in the chain's 800 stores in Germany, Central and Eastern Europe. The programme includes eight of dm's 20 largest suppliers. "The more complexity, the more likely they are to want to control their own complexity through VMI," says Kolodziej.

He has a simple answer for why VMI is not universal throughout Europe. "Too few industrial partners and suppliers have taken it up, so there isn't the necessary critical mass."

Paperless a 'No Brainer'

Do not stop in the quest for a truly paperless supply chain, argues Franck Mariambourg, head of Global Customer Supply Chain Solutions for Kraft Foods.

When we talk of 'paperless,' we tend to think of invoices and orders. "They're a 'no brainer,'" says Mariambourg. "Implementation is well under control. A truly paperless order-to-cash process means a lot more, a lot of significant benefits."

In the US Kraft has implemented a more extensive paperless approach by financially encouraging customers to develop ecommerce, targeting the best-suited customers, while jointly mapping the supply chain.

"We dedicate a specific team to work on the roll-out," he says.

Examples include advance shipment notices, which have generated savings of \$0.50 per case or \$116 per truck, as well as electronic funds transfer and payments to retailers for trade and other programmes.

Indirect benefits have included the facilitation of exception based management and the elimination of significant paper storage.



Things Go Better With RetailLink

With a retail chain the size of Wal-Mart's – including international brands such as Asda in the UK – it pays to have "one version of the truth", as it likes to call its RetailLink, for retailers and suppliers alike.

The system provides detailed product information, such as inventory, markdowns and other data by location. Coca-Cola is a fan and Kenneth Forster, Group Director of Strategic Initiatives for the Coca-Cola Company, explains how his company has taken advantage of the information to better shape its marketing and supply approach.

For instance, through category management in Canada it was able to identify growth opportunities in energy and health and wellness segments by establishing unique solutions for 'clusters' of stores. In Mexico it built a 'beverage opportunity map' based on shopper profiles and specific shopping occasions – this has yielded double-digit growth.

Focusing on availability in the UK, Coca-Cola has been able to analyse factors such as store hours and the best/worst performing stores to gauge where the problem might be.

The service is free to suppliers and Forster urges: "Take advantage of it that's all Coca-Cola has done."



Changing the Rules Directly

Are there lessons to be learned from a direct model of supply, with no stores and no warehouses? If there are, then Dell is good example to follow.

"The key element to our model is communication," says Dan O'Donnell, Director of Demand Planning for Dell's EMEA Supply Chain. "We believe our time-to-market advantage is in excess of 80%."

In the Dell model the company can 'demand shape,' which helps to even out macro forecasts of manufacture from the Far East. "We give customers choice based around availability," O'Donnell explains.

Dell does not build to stock. "There is no end SKU for what we sell," says O'Donnell. "There is only a very, very short time when we take control of the asset." Components are generally sitting in suppliers' warehouses close to Dell's assembly plants until they are needed.

"The order drives all material requirements in a factory – nothing gets built without an order." In the Limerick, Ireland, factory, for instance, at any one time the facility has about two and a half days work ahead of it, based on a journey from one end of the factory to the other of approximately six hours. "We're scheduling the factory with two hours worth of work at a time," says O'Donnell. "That's it."



Jean –Luc Galzi

When controlling costs, "you've got to look at both IT and supply chain factors," says Jean –Luc Galzi, CIES IT Committee Chairman, explaining why IT and supply chain came together for this year's conference. "The flow of goods and information go together." He and CIES Supply Chain Committee Chairman, Ian Mumby, welcomed 329 participants from 33 countries – 43% of whom retailers.



OOS not All Bad

Mike Lewis, Professor of Operations and Supply Chain management at Bath University School of management in the UK, has followed Zara from its early days of international expansion and admires its model based on rapid-fire fulfilment and a neat balance between scarcity and availability.

"Scarcity works in their favour," Lewis observes of Zara's attitude to empty shelves. "It encourages people to buy more." He believes they have successfully carved out an image of "mass luxury".

He also admires their attitude to the use of technology in the supply chain. "They close the information loop with technology and people," he says. Two or three times a week there is a phone call between each store manager and the market specialist – a familiar voice – to place orders and exchange information. The system

Out With the Old, In With the New



Coles Myer may be Australia's largest retailer but its IT systems were a mess, with each brand wedded to its own legacy system. The petrol stations were even using hardware based on the Commodore 64.

Consequently, the company is currently undertaking "probably the largest retail change programme anywhere in the world," according to Coles Myer's CIO Peter Mahler. The programme is set to peak during 2006/7, when 77 projects will be delivered.

In 'catching up' with other large retailers, Coles Myer has created a central data warehouse – the second largest people information database in Australia after the government's – and reduced the spread of 42 DCs down to 12 new facilities.

"We went from building to buying; from brand silo based to process based; and from five financial systems to one," says Mahler. In terms of culture, the company has realised that it needs knowledge people such as systems architects and integrators rather than programmers, whose functions could be outsourced.

represents "a richer interrogation," says Lewis, than any data exchange by computer.

"They're not interested in new generation technology. I remember them saying to one vendor, 'tell us what you were selling last year – it will be more reliable and we will get a better price from you.'" Fortunately for Zara, their customers do not take the same attitude to clothes.



All picture courtesy of CIES – The Food Business Forum