

# Lessons from Barcelona

Over the next six pages Supply Network provides a snapshot of some of the issues facing the food industry and, particularly, the supply chain that links suppliers with retailers. The snapshot comes from the CIES Supply Chain Conference held in Barcelona in October under the banner 'Creating Tomorrow's Supply Chain'.

To assess the outcomes from the conference, *Supply Network* sat down in Barcelona with Ian Mumby, CIES Supply Chain Management Committee Chairman and, in his day job, Head of Supply Chain, Logistics and IT – Foods for Marks & Spencer.

"The first lesson I would draw from this conference is that there are many more opportunities to collaborate and work together than have been exploited so far," he said. "In order to make the most of those, we have to work on practical projects together. That's what we've seen a number of examples of in Barcelona – retailers working with manufacturers, retailers working with service providers such as third party logistics providers, even retailers working together with other retailers.

"The second thing is that clearly people in the supply chain in the broadest sense are going to be a major area of focus – it's both a major opportunity and, if we don't get it right, a major threat in the future. 'People' covers everything from a major shortage of skilled resources – drivers, for example – all the way through to the presentation suggesting that we as leaders in the supply chain have a responsibility to develop among our teams the next generation of leaders who will need a potentially different set of skills from the traditional hard skills. They'll need those hard skills but in addition they'll need broad leadership skills and, if we're going to collaborate more across the supply chain, they'll need the skills for that too.

"The third area focuses on the fact that there is a convergence between supply chain thinking and IT and technology thinking. Consequently we've taken the decision next year to have a joint conference with the CIES IT committee and the CIES Supply Chain Committee in Geneva. A lot of the issues are starting to converge –

RFID is one but there are many others around, such as data synchronisation, automation and mechanisation. There are many areas of opportunity for those two areas coming together."

So people issues and collaboration can be expected to figure significantly on the programme for the 2006 conference but Mumby sees other challenges looming on the horizon.

"We'll have to deal with the very broad issue around supply chain costs," he predicted. "There are increasing cost pressures, as there always are, but some things are now coming to the fore – fuel prices, for instance, and the whole cost of moving things around. There will come a time when we cannot absorb those increases.

"That's all about understanding the end-to-end costs. We talked about collaboration – you have to understand the costs across those interfaces in order to make good decisions. Transport efficiency is related to that.

"Another important topic covers in-store processes that relate to the final few yards that goods travel. On-shelf availability is a perennial topic because nobody has yet solved that. Companies have come up with initiatives that will improve the position but nobody has solved it.

"We'll also talk to the IT committee because they will have some ideas for 2006 as well."

Meeting up once a year to address cross-industry challenges is all very well but what can CIES deliver between conferences?

"The big strength of CIES is that it is a network," said Mumby. "We try to make the links for members that otherwise it would be difficult for them to make. "There are a lot of opportunities for members companies to contact CIES and say 'I'm working on this particular issue – do you know anyone within CIES that has tackled this problem?' That sort of network needs an axis – a central point through which those contacts can be made – and that's what CIES can provide." ■



# 'We Must Master Time and Trust'

## CIES tackles key consumer trends

Retailers need to take particular account of two major trends in consumers' habits and attitudes. Firstly, they have less and less time and consequently they value time more. Secondly, the nature of trust has changed. These were key themes of the opening address by **Anne Doberstein**, Manager, Consumer & Market Knowledge, Western Europe for P&G, at the CIES Supply Chain Conference 2005.

believe that with their EDLP strategies they are getting very good value from there."

Traditional forms of trust have eroded, said Doberstein. Previously, there was a blind trust or belief that others had our best interests at heart. When the government or a company said something, we believed it. Now consumers are more careful about where they put their trust.

This creates a major opportunity for retailers, said Doberstein. "We know from all our research across Western Europe that the number one driver of store choice is 'a store I trust'."

She maintained that trust has three factors: performance, honesty and – the highest form of trust – relationship and bonding. Manufacturers have done a pretty good job on performance.

"When you look at it from the consumer's point of view, a lot of our activities could be seen to be dishonest. A lot of the promotional strategies that we use – how does she know what price she should pay today when she knows that tomorrow she can get it cheaper?"

Doberstein posed three questions that all retailers should ask themselves about their relationship with the consumer: Are they respecting her time? Are they being honest? Do they have her best interests at heart?

"If we are not doing this we have to change our behaviour," Doberstein concluded. ■

There are five main resources that we as consumers draw on to deal with every day," said Doberstein. "Information, time, energy, money and space.

"Most people believe the scarcest of these resources is money – and it is. But on a day-to-day basis the most important to the consumer is time."

But are retailers respecting consumers' time shortage? In 1999 the number of new products launched in just 14 categories was 8,000. In 2004, 24,000 new products were launched in those same categories. "Are we really offering new products that offer innovation and not just variation?" Doberstein asked the CIES delegates.

"People want more convenience. But are retailers' layouts offering greater convenience for us and making the consumer do the work instead?

"If you think about a consumer and what she is looking for, and you look at an Aldi or a Lidl or other discount retailers, they are offering a lot more than just price. They are offering simplicity and valuing her time. If you go to any of those stores you can quickly move through and meet your needs. Consumers



P&G'S Anne Doberstein

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*CIES-The Food Business Forum is an independent global food business network that serves CEOs and senior management of 175 retailer and 175 supplier member companies in more than 150 countries.*

## Global Trade will Grow...and Grow

The cost of shipping a 40-foot container from Shanghai to Antwerp is the same as the cost of sending it on a truck from Madrid to Brussels.

Low transport and labour costs in developing countries have resulted in average world trade growth of 5% per year – twice world GDP growth – for seven years.

Such trends that stimulate global trade will not stop, Léandre Boulez, Managing Director of Auchan Import-Export, told the CIES supply chain conference in Barcelona. Developing countries are committed to grow trade to support their domestic development. China has been a member of the WTO since 2001 and Russia and Vietnam are soon to join. For every Airbus 380 that China buys, Europeans have to buy the equivalent of 200 million shirts.

These low cost countries are fast building production specialisations. Verbal, visual and data communication is now simple and cheap. And trade in primary materials such as wood and plastics is already globalised. High education levels and massive investments in infrastructure, such as the new port of Shanghai, are facilitating continued expansion. The total capacity of ships at sea was 6.6 million TEUs in 2004. By the end of 2007 it will be 9 million TEUs.

For European business people sourcing globally, the opportunities come with challenges. In some countries companies disappear as quickly as they appear. "Never believe what anyone tells you," said Boulez.

The rate of growth is creating its own problems. Manpower shortages in overloaded factories are not uncommon in southern China. Power cuts are a regular occurrence. And the problems are not all from outside our continent. "In the EU, customs have a mission to reduce the flow of imported consumer goods by investigating and interpreting the laws and regulations," said Boulez. Distance creates more problems than extended lead times. If goods are not up to the quality standard, there is no question of sending them back. Strong quality and customs management are a must.

# How to Tackle Transport Crisis

The European road transport industry is at a crisis point. Supply chain managers cannot wait for the EU to take action – they need to take action themselves. This was the message from Andreas Zink, Managing Director of Austrian transport group LKW Walter, to the CIES Food Business Supply Chain conference in Barcelona in October.

According to an EU trend study, European traffic will grow by 70% between 2004 and 2015. In new member countries, road traffic will grow by 137%.

There is a clear link between economic growth and transport growth. However, that growth has been accelerated by industry trends such as increased outsourcing of production to lower cost economies, centralised European distribution and the desire for stock reductions that encourages smaller and more frequent deliveries.

The EU's white paper on transport strategy proposes 60 measures to tackle the jams of the future. But it contains a number of contradictions, according to Zink. Transportation is already 13% more expensive in Europe than in the US, but the white paper proposes charging. Modal shift is one of the main solutions proposed by the white paper, despite the fact that intermodal transport would have to increase by 440% to accommodate a 10% shift from road transport. The national rail monopolies are unable to transport goods from Italy to Sweden with less than four engine changes.

The failure to harmonise weekend driving bans across Europe does not encourage optimism on the transnational coordination that will be needed for politically difficult decisions ahead.

"You supply chain managers can influence things," said Zink. Decisions to move to centralised DCs are usually taken on

financial grounds. Logistics thinking needs to be taken into account.

Transport is a simple thing, said Zink, and transport companies need far-sighted supply chain managers. "You are the architects of our future and we can't wait for the EU to decide for us. The commercial voice needs to be much stronger."

There are three areas where supply chain managers could take practical steps, he said. They need to plan better, eliminating peaks and troughs. Transport cannot be turned on and off like tap water. They should not over-optimize their networks without good reason. It has a cost. And they need to integrate with their logistics service providers to plan longer term and collaboratively. ■



LKW Walter's Andreas Zink

# Logistical Nightmare Becomes a Dream

In 1995 the typical METRO Group Cash & Carry store had 150 trucks turning up with deliveries per day. The average delivery was three pallets per truck and 80% of deliveries consisted of no more than one pallet. In addition the stores received an average of 250 parcels per day. The result – besides the traffic created and waste – was long lines of idling trucks.

Today the Metro group lists more than one million articles for its stores. It has more than 8,000 active suppliers and its retail outlets vary from small formats of 1500m<sup>2</sup> to more than 50,000m<sup>2</sup>.

Its solution was the establishment of METRO Logistics Group. MGL takes over responsibility from the supplier's ramp to store delivery. Orders are made by the METRO store groups to individual suppliers. The supplier picks and prepares the store orders. Following strict regulations, the suppliers inform MGL and agree pick-up times.

In Germany, MGL uses five service suppliers for its transport needs. It operates more than 65 cross docking terminals around Germany for everything from chilled foods to hanging goods. Since 1996, more than 4,400 suppliers have joined, and MGL handles more than 12 million packages, 12 million pallets and around 22 million hanging goods per year in Germany alone.

MGL has transformed the situation at the store ramp. Now the average arrival to a cash & carry store is 30 pallets – predominantly full truck loads – and 98% of deliveries are on time. Transport damage has been reduced by 20% and goods availability improved by an average 7%, depending on the category. Inventories across the whole supply chain have decreased substantially.

"Without any investments, in cooperation with service suppliers, we have no long term contracts or fixed costs," said Frank Körber, chief operating officer for MGL, when addressing CIES Supply Chain Conference delegates. "We have set up a common development with high flexibility."

However, it took MGL three years to get its German operations to a point where it was ready to roll it out to other countries. The biggest problem was staff attitudes. "We needed to con-



MGL's Frank Körber

vince the METRO Group buying organisations and that took time," said Körber. "But I think now none of our buying people would start negotiations on logistics issues because they really understand that it is a quite different business."

Turkey, Poland and Austria had been added by 2001. In 2003, Bulgaria was added. In 2004, MGL opened in Russia, Belgium, Netherlands, the UK and Greece. In 2005 the Czech Republic, Slovakia, Hungary and the Ukraine were added. During 2006 the acceleration continues with MGL operations starting in Romania, Italy, Spain, Portugal, Croatia, Serbia and Bosnia.

The main lesson from the three years needed to establish the concept in Germany, Körber revealed, is that a paradigm shift like MGL needs a strong commitment from all sales divisions, the stores, group buying, operations – and the supply chain needs to be run in close cooperation with suppliers.

Rules and responsibilities, particularly in ordering and goods receiving, need to be fully thought through.

But the pay-off is more than the improved logistic efficiency and cost savings, he said. "It lets buying departments concentrate on promotions, prices...all issues except logistics." ■

# RFID: The Real Deal

Many are talking about RFID implementation. Marks & Spencer is already doing it...and doing it successfully, as the company's **Ian Mumby** outlined at the CIES Supply Chain Conference 2005.

**F**orget pilot projects – here's the real thing, already in place, already delivering value. Though return on investment may, like many other RFID projects, be an as yet unrealised dream, the technology is already judged a success at retailer Marks & Spencer, which has €11.65 billion in sales globally from its food, clothing, homeware and financial services, and more than 400 stores in the UK and Eire.

The move to metric sized food trays was the trigger point for the introduction of RFID. To get an idea of the challenge involved in making changes to the M&S food supply chain, M&S is 100% own brand; it has 200-plus food suppliers via six core depots; handles 3 million trays a week – 70% chilled; 40% of products have less than five days shelf life; distribution typically takes 24 hours from factory to shelf and there is a peak uplift at Christmas of 75%.

A substantial challenge, therefore, which has involved tagging 4.5 million trays, tagging 0.5 million, enabling the six depots, enabling more than 100 supplier sites and reading 1 million tags per week.

M&S opted for HF and Mumby observed: "That has solved some of the problems that other companies have faced with read

rates." The tag is very robust, he said, and will outlast the tray in many cases.

The company started with arch portal readers in 2002 and progressed to twin portals the following year. The introduction of mobile readers in 2004 was, according to Mumby, "a massive step forward", adding that the next step will be mobile readers "without the cables".

During rollout, M&S suspended some suppliers from the project who hadn't yet aligned their own internal systems. "The technology works," said Mumby. "The problem is people not doing what they are meant to do consistently." He described a "supplier RFID journey" on which suppliers moved from being unconvinced to a point of being committed and, in some cases, "evangelical" about RFID. World Wide Fruit, for instance, has achieved investment pay back in six months, upped its delivery accuracy from 95% to 99.8%, achieved visibility from production to picking to despatch and now has the ability to send pre-delivery information. Mumby outlined a similar success story at supplier R F Brookes that moved from pilot to live implementation at two sites in one month.

"Suppliers will invest in RFID once they understand it," he says. "It's up to you to make sure they understand it."

As far as compliance is concerned, Mumby has found RFID to be 80% more efficient than bar code reading.

"We will get to the point where tag is king," said Mumby, who identified that benchmark as the point at which the company will be getting more information from RFID than from bar codes. He revealed that M&S has already achieved that level at one depot.

Other benefits realised at depot level include accurate planning, improved productivity, improved asset utilisation and less rework. Mumby believes that the real benefits occur outside the depots.

Mumby may be unequivocal about the benefits to M&S but his company has the advantage of operating in a closed loop with suppliers providing 100% own brand goods. Talking to Mumby after his presentation, we asked him if it can work as well in a less regulated environment.

"I don't see why not," Mumby told Supply Network. "The technology works – we've proved that. It might take longer because you've got more people to align around standards and around processes but I think the benefits are substantial enough. There is evidence that people are already investing time and resources in non-closed loop environments to suggest that people want to do it, the technology can do it and it will happen – it will just take longer."

Yet, if the benefits are so self-evident, why aren't more companies implementing it? "Remember what I said about the suppliers – they go through a journey," said Mumby. "Some are very committed and want to be at the forefront of it. Others are biding their time. If it comes to fruition in the way I think it will, those companies that are less convinced will become convinced. They will just be later than those that are at the forefront." ■



Marks & Spencer's Ian Mumby

# They're Back!

The revival in fortunes of the once pre-eminent UK supermarket chain Sainsbury's made for a gripping case study presentation at the CIES Supply Chain Conference in Barcelona.

**T**he Sainsbury's story would make a compelling TV drama. It has all the key elements of tragedy, descending into near farce, followed by a heroic recovery engineered in large part by the inspiring intervention of a former adversary.

When industry veteran Lawrence Christensen got the call from Sainsbury's in September, 2004, to become Supply Chain Director, the retail behemoth had just transferred its distribution to four big – very big – fully automated warehouses following a seven-year systems re-engineering programme that had been squeezed into just three years. The new warehouses contained every state-of-the-art bell and whistle imaginable. There was only one problem.

"They just weren't working," Christensen confessed to CIES delegates, adding: "When something like this is not working, it has a huge impact." Unfortunately those regional DCs were not the only thing broken in the Sainsbury's supply chain.

Christensen was well equipped to judge. He was previously Group Operations Director for Safeway responsible for supply chain and store operations, having been appointed to its board in 1987. Since joining Sainsbury's he has been responsible for driving through massive changes within the company's supply chain and store operations, resulting in huge improvements in availability for its customers. He heads for the easy chair again at the end of 2005 after a job well done.

Back to the story.

Prior to the business turnaround, the strategy objectives in 2001 included a major systems re-platforming, the outsourcing of IT and a major network renewal, including massive investment in four large automatic warehouses.

Challenges arising from the implementation of this strategy included the new systems not

delivering, industrial relations troubles, alarming stock-out levels, a loss of retailing strength and a dramatic escalation in costs. All this resulted in a down-turn in both profits and market share.

In taking up the challenge of "making Sainsbury's great again," as he described it, Christensen decided to undertake a "plough to the plate" review and to start with the customer in the store and work back from there.

As well as unacceptable stock availability levels, he found heavily congested store backrooms and poor backyard standards creating excess stock. Unproductive working methods across day and night operations were linked to an acceptance of operational standards below those of competitors. Stock file accuracy was poor and delivery lead times across ambient products were not supporting fast resolution and forecast accuracy.

That was just in the stores. There were similar lengthy lists of shortcomings related to supply chain activities. You get the picture. The solution?

"I wanted to deliver industry leading availability through a total supply chain model, involving consistent and sustainable replenishment and stock management processes, which can be rolled out quickly and effectively across the entire supply chain," said Christensen.

He initiated the slogan 'If it's in the store, it's on the shelf' and introduced what he dubbed the "focus on availability strategy".

"We took one store and aligned all their processes. Having achieved this we then established a store operation that focused on the customer with on shelf availability as the prime objective. We then created a plan to roll out to all stores and implemented it by June, 2005.

"In the first week in the pilot store we reduced gaps by 45%, reduced backroom stock holding by 62% and proved to the company and colleagues that this was the right approach."

As well as eliminating clutter and improving standards and staff morale, Christensen's campaign tackled the systems deficiencies head-on – eliminating unnecessary reports relating to inventory and focusing on daily analysis geared to reduction of stock-outs.

He worked hard to ensure that both store and supply chain personnel operated as one team focusing on availability and customer needs.

A retail centric culture was created, delivering what Christensen claimed as the following benefits:

- **Availability - out of stocks reduced by 75%, in line with best industry standards**
- **Product wastage reduced by 40%**
- **Store back room stock levels reduced by 53%**
- **Store staff morale significantly improved**
- **Store processes now aligned with systems**
- **Store order lead times now aligned with store processes**
- **Store inventory within system tolerance accuracy**

In the logistics area the company has since achieved:

- **Flexible union agreements and improved working practices**
- **Supplier inbound deliveries now support improved availability and shelf life**
- **Retail Support Teams established in all major sites**
- **Depot productivity increased by 20%**
- **Logistics network volumes increased by 10%**
- **Transport schedules now aligned with store processes**

At the chaotic automated sites, Christensen worked in close co-operation with Witron and Siemens. The failing systems are now resilient and robust operations consistently handling in excess of original planned weekly volumes. Sites that were previously operating inconsistently at about 800,000 cases per week are now operating consistently at about 2 million cases a week each.

Having, in Christensen's words, "sorted out the basics," the company has now embarked on a new marketing strategy using the catchline 'Try something new today'. In supply chain terms it really is new. ■

# The Comeback Kid



We admire the self-contained style of **Archibald**

**R**emember where you heard it! Industry veteran **Lawrence Christensen** really plucked the heart strings as he outlined the chaotic supply chain position at Sainsbury's and subsequent business transformation to assembled delegates at the CIES Supply Chain Conference in Barcelona. In the first report to his chairman he concluded: "There is nothing here I haven't seen before, it's just that I've never seen it all at the same time and in the same place"...When taking on the task, his old Safeway chairman told him: "You must be mad – it's a basket case"...Having got rid of all the excess stock from the back yards of the stores, he said: "The marquees are now available for barmitzvahs and weddings"... A straight talking prize goes also to P&G's **Anne Doberstein** who, when asked which retailer is best at listening to its customers, replied instantly: "Mercadona", before adding quickly "I hope I haven't insulted all the other retailers in the room"...

**Jonathan Pearce** of Nestlé appeared to be arguing for his own redundancy as a CIES conference session moderator when he proclaimed passionately to delegates: "ECR produces blue books and has done so for the last 10 years. The problem we have is in the implementation – the execution. It needs less talking about it and more doing it. Do we need to reinvent and discuss everything that we do?" We know what he really meant...Prize for the best ques-

tion at each session was Thomas Friedman's new book 'The World Is Flat'. Is that a concept to help transport optimisation?...A gift of champagne was brought into the CIES conference hall in spectacular fashion by forklift truck (pictured below) to recognise long service to the CIES cause by seasoned industry veterans...Special guest speaker **Bertrand Piccard** (pictured below), pilot of the first non-stop balloon flight around the world, gave compelling evidence that fastest is not always best. Persuading Piccard to slow down from 120kph to 60kph at one point in his historic flight, a weather forecaster asked him bluntly: "Do you want to go very fast in the wrong direction or slower in the right direction?"...



"We are very strict," said METRO's **Frank**

**Körber**, when it comes to defining rules and regulations such as goods "on time", which he defined as half-an-hour either

side of the stipulated time. No surprise there. However, in a later Supply Chain Conference session there was laughter when **Roberto Magnani** of Number 1 Logistics Group said: "You might be surprised to learn that in Italy 'on time' has the same meaning as in Germany"...And his session co-presenter **Daniele Fregnan** of Gruppo Pam, referring to an earlier European consumer survey presentation, quipped: "I'm not in the 50% of Italians that is 'too tired' at night"...Travel advisory from Auchan Import-Export's **Léandre Boulez**: China closes for two weeks during Chinese New Year, so be careful when you place those cheap textile orders. Apparently the Chinese railway company sold a staggering two billion tickets during that two-week period in 2005 as people travelled back to their villages. Boulez – a mine of information – said that now two-thirds of new containers are built in China. Why? "So they can fill them up and send them here!"...

**Boyd Tunnock**, Chairman of T Tunnock Biscuits, interviewed at length in this issue, who says: "We have never had a management consultant in the door. Our definition of a management consultant is someone with a briefcase who is more than eight miles from home"...**Jerry Marwood**, Spar UK Managing Director at the IGD conference on flair in retailing confessed: "We have got enough flair to realise we don't know it all"... If you're looking for a neat piece of wisdom to put on your tombstone, look no further than this slogan from Tesco's Marketing Director, **Tim Mason**: "We are obsessed about customers. We are paranoid about competitors"...Finally, is this the supplier equivalent of the old school-boy excuse 'The dog ate my homework'? "We are short of tuna at the moment. The brightness of last month's full moon caused the fish to swim deeper than usual." Thanks to retailer Asda for that supplier's excuse for poor availability and please do send any other classic tales to [chaingang@regattamedia.net](mailto:chaingang@regattamedia.net). **SN**

