



EXECUTIVE SUMMARY

The CIES Supply Chain Conference *Myths and Realities in the Supply Chain* 2 & 3 October 2003, Nice, France

The CIES Supply Chain conference in Nice gathered together an international audience of 212 participants, of whom 43% were food retailers, coming from 30 different countries. Here is a summary of the discussions that took place.

OPENING SESSION

Introduction from the Conference Chairman

Olivier Vidal, Partner, Accenture, France

To illustrate the contribution of the supply chain to the financial success of a company, Olivier Vidal quoted a study carried out by Accenture with INSEAD and Stanford business schools. The research examined the correlation between market capitalisation and supply chain performance for over 800 companies taken from the top 3000 global companies (covering 24 industries). The results showed that 50% of the leading companies by capitalisation were also leading supply chain performers. "I had never seen anything showing so evidently the relationship between the two", he stressed. Moving on to the issue of retailer-supplier relationships, Olivier Vidal referred to the experience of a vice president from a CPG manufacturer who went to present proposals to Wal-Mart. After being told by Wal-Mart that his plans did not address fundamental questions like complexity and costs, the VP was left with the impression that "I'm not sure I know or share the agenda of our retail partners".

WHAT RETAILERS VALUE MOST FROM THEIR SUPPLIERS AND HOW THIS HAS CHANGED OVER TIME

Jean-Jacques Vandenheede, Vice President Europe Retail Services, ACNielsen Belgium

The 'ideal' manufacturers' model would allow them to get their product directly to consumers but in reality both retailers and manufacturers are dispensable in optimising the supply chain. Jean-Jacques Vandenheede summarised the differences in the business models of retailers and manufacturers as follows:

Retailer

Format differentiation
Shopper loyalty
ALL categories
Differentiate offering from other retailers
Price differentiation
Short-term priority

Manufacturer

Brand differentiation
Brand loyalty
Per category
Maximise distribution across retailers
Price alignment
Long-term priority

When both players are in offensive or defensive strategies, these business models are not in synch. To establish concretely how retailers view their supplier relationships, ACNielsen carried out research in four European countries (France, Italy, Spain, UK) under the title, "What retailers expect from their suppliers?". The survey covered the leading food retailers in each country together with around 20 major CPG manufacturers. A first module provided an overview of 'trade satisfaction'. A list of 10 strategic attributes was established according to which suppliers were evaluated by retailers. As an opening question, retailers were asked to rank these attributes in order of importance. The results varied between the countries but similar trends prevailed, with "Recognises strategic importance of my business", "Sufficient lead-times" and "Brands deliver acceptable return" all figuring at the top.

As the next part of the overview module, the retailers rated the suppliers for each of the attributes on a scale of 1-5. This results showed a wide spread of scores, indicating the gap between companies in different areas. The final part of the overview consisted of an evaluation of the "Strength of Relationship", according to five ratings ranging from "among our preferred suppliers" to "their contribution is insignificant". Again, the spread of scores for each supplier is revealing. In the UK and France, for example, none of the suppliers were rated as insignificant but there were wide disparities. One manufacturer in the UK was notably considered as a "preferred" supplier by 14% of retailers and a "lower priority" by another 14%. Italy provided the most critical assessment of suppliers, with very few companies considered as "preferred" and several judged "insignificant". These country differences highlight the distinct characteristics of each retail market.

Each supplier participating in the survey received a strategic scorecard that summarised strengths and improvement areas based on the overview results. In addition, a further three modules examined in detail specific categories using 42 attributes.

Interestingly, “consistent timely deliveries” was voted the important attribute in this extended list, with “Brands provide acceptable profit” only at number eight.

Summing up, Jean-Jacques Vandenheede stressed that all manufacturers, large and small, had found room for improvement in their performance. In particular, the survey showed that the biggest gaps between companies were on those attributes considered most important by retailers. Taken together, the results prove that no one has yet mastered the basic requirements of “right product at the right place with the right price at the right time”.

MULTIPLE STORE FORMATS – DOES ONE SUPPLY CHAIN FIT ALL?

How does Migros Serve Multiple Store Formats Using One Supply Chain?

René Meyer, Logistics Director, Migros-Genossenschafts-Bund, Switzerland

René Meyer explained how Swiss cooperative group Migros developed a single supply chain to support 10 different store sizes ranging from 200m² to 10,000m². While the regional cooperatives handle fresh food at their own distribution centres, two national DCs manage respectively dry food and non-food/frozen food/near food (i.e. cosmetics, household items). To organise the assortments of the different store sizes as efficiently as possible, these are built up layer by layer, starting with a basic daily assortment that covers all stores. These fixed assortment types are then adapted according to local differences and loyalty data. René Meyer summarised the key characteristics of this logistics system as follows:

- high availability in logistics and sales
- varied assortment (from fresh food to furniture)
- ‘bundling’ of deliveries (no direct store delivery)
- daily deliveries, particularly in fresh (twice a day)
- high degree of service (deliveries several times daily at fixed times in line with shelves)
- standardisation (use of Euro pallet for all deliveries)
- high percentage of own logistics (lorries and DCs)
- one supply chain for all super/hyper formats

What was the impact of this approach on Migros’ supply-chain efficiency? The use of a standard pallet reduced costs in stock-keeping and item management. However, the optimum capacity of a pallet varied according to the store size, so loading was adapted accordingly. These contrasts had a negative effect on small stores: relatively short orders were delayed because of the long picking paths at the central DCs and because the load units often had to be broken up at the back of the store before shelf-stacking.

New dry food DC

Migros also developed new service standards for its national dry food DC. This delivers 70% of goods directly to stores, with the remainder going to regional DCs. The new logistics requirements were:

- daily delivery of the whole assortment
- 2nd replenishment delivery based on 8-10am sales data
- delivery in line with shelves
- +/- 30 minutes compliance with delivery times
- notification of delivery, including advance notice of contents per pallet
- same standards apply to very small customers such as specialist shops and restaurants

Migros encountered specific problems with small stores, which slowed the picking process with their small orders, and supermarkets, which were forced to store larger units in the back room. As a result, Migros made a series of adjustments: bundling very small customers together through the regional DCs; supplying small stores once every two days instead of daily; ending the 8-10am replenishment window; studying a switch from Euro pallet to roller containers. In conclusion, René Meyer offered the following learnings:

- A supply chain for different store formats requires compromises between efficiency and degree of service
- Migros' current logistics system uses load sizes designed for larger stores but these outlets would also benefit from smaller sizes to facilitate deliveries 'in line with racks' (i.e. pallets loaded according to the layout of store shelves)
- The creation of a second supply chain would not fundamentally alter the situation
- A conventional picking system can better fulfil these varying requirements than a mechanised one.

Why and How did Auchan Split Supply Chains for its Supermarket and Hypermarket Formats?

Léandre Boulez, Supply Chain International Director, Auchan, France

Léandre Boulez described why and how Auchan divided its supply chain operation in eastern France between supermarket and hypermarket formats. Traditionally a hypermarket operator, Auchan acquired the Atac supermarket banner after buying Docks de France in 1996. In eastern France, the group inherited a split supply chain from Docks de France, with one 37,000m² warehouse serving hypermarkets and three 9,000m² warehouses serving supermarkets. The situation was not satisfactory for Auchan since the smaller sites were not modernised and had a capacity of only 700 pallets per day compared to 1,500 at the hypermarket warehouse.

The strategic question for Auchan was whether to adopt a common supply chain (i.e. by enlarging the main warehouse to 52,000m², interfacing the two IT systems and restructuring staff and management) or develop two different operations (i.e. by creating a

25,000m² facility for supermarkets, with the potential to be extended to 35,000m²). The first option appeared attractive given the large initial costs savings (estimated at 1.05 million euros per year). However, the efficient single warehouse for both supermarkets and hypermarkets proved to be a 'myth' given the costs in integrating two very different supply chains. Auchan identified the key cost areas as:

1. **Assortment:** different promotions and basic assortment create costs, particularly in the picking path for supermarkets. Extra costs estimated at 600,000 euros per year.
2. **Transport fleet:** 25% of the supermarkets needed dedicated lorries and the hypermarket lorries were already full. Merging supply chains provides no cost benefit.
3. **Information systems:** interfacing the respective supply chain systems would require an extra investment of 1 million euros and maintenance costs would then rise by 150,000 euros per year.
4. **Tax:** a special tax in France, known as CS3, applies to companies selling goods to other companies that are not part of the same holding group. The extra cost for Auchan would have been 180,000 euros per year if it supplied Atac supermarkets.

By including these various costs, Auchan calculated that it would enjoy a net benefit of only 120,000 euros a year by developing a single warehouse. At the same time, the one-time IT cost of 1 million euros would mean that ROI would be at least nine years. The outlook becomes even worse in view of Atac's five-year growth target of 20%: this would create even higher integration costs, reducing the net benefit to just 15,000 euros per year and eliminating any ROI. Auchan's conclusion was therefore to develop separate warehouses for its hypermarkets and supermarkets in eastern France. A 28,000m² facility for supermarkets has just opened as part of this programme. However, the long-term challenge, Léandre Boulez stressed, is to grow: once you reach 500 million euros in turnover, supply chain optimisation becomes easier.

Session Q&A

Asked whether Auchan's split supply chain project was strategic or more a response to the reality of operating two formats, Léandre Boulez said that, from a commercial point of view, Auchan and Atac were separate. The question was how to optimise the supply chain to serve both formats. In Morocco, for example, Auchan has started with a common supply chain but is planning to create separate ones when it acquires sufficient scale. Concerning inventory, he said that the average level was 20-21 days for dry goods at the eastern warehouses; this was above the normal 18 days, reflecting the test stage of the programme and the distance from Auchan's main national DCs. René Meyer said that Migros currently had inventory levels of 12-15 days but was aiming to reduce this to nine days.

BENCHMARKING – WHAT’S IN IT FOR ME?

How Benchmarking Customer Service Can Lead to Increased Service Levels and Reduced Costs

Brad Newman, Director European Value Chain, Gillette, Switzerland

A benchmarking study carried out by Gillette two years ago showed that it was high-cost and low performing compared to its peers. For example, order management costs were 0.8% of sales, compared to 0.4-0.6% for its peers, while order fulfilment levels were as low as 80%, compared to an 98% average for its competitors. Gillette identified six performance levers, designed to reduce its SG&A (Selling, General and Administrative) costs by US\$6-10 million by the end of 2004:

- ‘Customer tail rationalisation’ i.e. identifying suitable customers and redirecting unsuitable orders to other channels like wholesalers.
- Minimise multi-, same-day shipments to reduce errors.
- Consistent pricing and promotional process
- Increase electronic ordering (avoid rechecking)
- Significantly reduce out-of-stocks: this was the key problem; shown by the fact that 48% of order management time was taken up by OOS and missed deliveries.
- Improve picking and delivery.

Gillette found that process failures and a weak supply chain were major cost drivers. In particular, there was a disconnect between processes such as order management and forecasting, with no one assuming end-to-end responsibility. The company thus decided to change its vertical supply chain structure into a horizontal value chain, aligned under one management.

To resolve underlying problems, Gillette then introduced “Root Cause Analysis” based on nine primary ‘reason codes’ (e.g. forecasting, systems). To identify precisely the issues involved, the company established detailed explanations within each of the nine areas. The results were striking as fill rates improved following the implementation of the value chain and root cause analysis. Overall, however, the number one problem for Gillette proved not to be forecasting or inventory but data error (e.g. incorrect order entry, out-of-date code in system). The biggest single challenge for Gillette was therefore systems maintenance.

External Benchmarking and What You Can Get Out of It

Richard Kochersberger, Professor, St Joseph’s University, & Director of Food Marketing Group, USA

Is benchmarking an effective tool or an academic exercise? Richard Kochersberger assessed the state of benchmarking in the food industry on the basis of existing studies in the US. He identified two major factors affecting research in this area: the ‘universal problem’ of companies hiding real data to avoid finding out how bad they are; and a lack

of quality research, reflecting the absence of industry standards for measuring performance.

The Food Marketing Group has sought to fill this gap by producing benchmarking studies for distribution (i.e. warehouse level) and transportation over the past 10 years. These reports provide breakdowns for KPIs like on-time deliveries and number of cases handled. The main learning has been the size of costs and their impact on the bottom line. Other observations included:

- Real productivity gains are being achieved, supported by new technology and systems.
- Technology implementation remains very conservative overall.
- Many operators are facing negative sales in the face of competitors like Wal-Mart.
- Companies are incorrectly structured to make significant gains in logistics.

In the food industry today, such data is not effective because it is reactive (i.e. in response to problem), is not based on agreed standards and is only used to measure parts of the operation. As a result, very few companies look at the real total cost of doing business. To derive major benefits from benchmarking, companies need to share information with everyone, including top management. On an industry level, Richard Kochersberger concluded, there was a tremendous opportunity to share knowledge, such as in the form of a global benchmarking report.

The Benchmarking Toolbox – GCI Scorecard & Glosup

Richard Cuthbertson, Senior Researcher, Templeton College, Oxford University, United Kingdom

Richard Cuthbertson announced to delegates the inclusion of the Glosup supply chain-benchmarking tool in the website of GCI's Global Scorecard (globalscorecard.net). Glosup, which has been developed by Templeton College with CIES, is consistent with the Global Scorecard but offers deeper analysis of KPIs at product category level. To access the Glosup service, participating companies use the new link on the Global Scorecard homepage and enter their password. Users create a company profile and enter KPI data in order to generate benchmarking figures. This online data can be general or very detailed. It is also strictly confidential, since no companies are identified and no user can obtain benchmarking results without first submitting their own data. As a follow-up, Templeton also offers offline analysis. The integration of Glosup into globalscorecard.net is continuing, with Templeton transferring data to from its existing database. Existing Glosup users are requested to give their permission for this transfer so that the integration can be completed as quickly as possible.

Session Q&A

Asked who is responsible for the wider value chain, Brad Newman said that supply chain managers held personal and joint responsibility. He stressed that Gillette's 'Root Cause Analysis' aimed to identify reasons and not blame individuals. On the issue of managing EDI complexity, he explained that Gillette was implementing a global catalogue covering

all countries and categories. Achieving data consistency was a huge project, he said, particularly given the amount of errors in processing orders. Olivier Vidal noted that Accenture had found the quality of master-file data to be a fundamental problem for many companies.

OUTSOURCING – WHAT ARE THE MUTUAL EXPECTATIONS?

The Service Provider Perspective

John Harvey, Chairman, Tibbett & Britten, United Kingdom

John Harvey offered the perspective of Tibbett & Britten, a leading third-party logistics provider (3PL) and the world's largest operator in consumer goods. In theory, outsourcing logistics allows retailers to re-deploy their resources but companies like Wal-Mart and Auchan demonstrate that in-house operations can be as efficient. So what is the real case for 3PLs? John Harvey outlined four key areas:

1. *Risk management*: outsourcing reduces retailers' vulnerability on labour issues. 3PLs are not 'union-busters' (half of T&B's staff is unionised) but they have separate labour contracts from in-house operations, which gives retailers greater flexibility.
2. *Flexibility & change*: 3PLs allow retailers to introduce change quickly, for example in developing non-food. Retailers often use 3PLs for pilot projects that could not be implemented under in-house labour contracts.
3. *Translating experience*: it is essential to translate or adapt from one country to another, rather than transfer or replicate. This takes time but T&B's growth in the US, where it gradually introduced European practices to raise productivity against union opposition, shows that it brings a return.
4. *Cost & competence*: again, managing change gradually is the key. Investing in people is particularly important if you are to achieve necessary scale. In Hungary, where it operates four DCs, T&B established a common recruitment operation with other companies to support its expansion.

The 3PL sector is enjoying strong annual growth of 10% but there are still many problems in outsourcing. John Harvey summarised key problems as follows:

- **Over-promising**: consultants and retail customers often create a 'mission impossible' in terms of timetables, cost and targets.
- **Compliance**: T&B found 40% non-compliance with one client. IT interface issues are central.
- **Untested integration**: individual processes can work separately but fail to integrate properly. For example, Asda-Wal-Mart's clothing DC in the UK took two and a half years to become fully operational. Again, client impatience can have a negative effect.
- **Divergence in strategy, lack of partnership**: partnerships break down if companies follow different objectives and fail to commit sufficiently.
- **Poor definition, incentive or return**: T&B favours open-book with KPIs in order to avoid financial pressures.

- **Contract fatigue:** providers can get complacent by considering themselves as the supply chain experts. 3PLs have to be clear about their partner/supplier status.

In conclusion, John Harvey outlined some key developing trends in 3PL logistics:

- *Macro-economic drivers:* technological change has redefined ownership and channels. The rate of change means that operators will have to reinvent themselves every five years.
- *Consolidation & focus:* 3PLs currently claim only 10% of the US\$123 billion European logistics market.
- *Extending competencies & geographies:* Europeans have led the way in international logistics and this expansion is set to continue with offshore support, notably in China.
- *Embracing the value chain:* 3PLs will have to keep up with new channel developments, such as post-4PL.

The Retailer Perspective

Mark Aylwin, Supply Director, Safeway, United Kingdom

The typical question asked by the finance director is why outsource logistics when you already do it in-house? Safeway's answer, Mark Aylwin explained, is that outsourcing is used to achieve sector-leading performance. He first outlined Safeway's supply chain operation:

- Supporting multi-formats
- Based on principle of 50/50 volume split between in-house and sourcing
- Accountability lies 100% in-house
- Open-book
- One team, one set of values, one goal

Put simply, the retailer's supply chain has evolved "from trucks & sheds to strategic partnerships". In the 1980s, Safeway faced severe disruption from trade unions. The supply chain operation was 100% in-house and covered by a national labour agreement. With the advent of Sunday trading, it became essential to move towards a 24/7 system. The shift towards third-party logistics (3PL) was thus initially a tactical move to get round the unions. The national labour agreement was ended and selected DCs moved to 3PLs. These new sites operated under no-strike agreements and used open-book accounting. At the same time, the prospect of outsourcing was used to pressure in-house staff to sign up to new practices.

With the acquisition of Safeway by Argyll in 1987, the retailer faced a massive transformation of its supply chain as it integrated new stores. 3PLs became even more important in order to drive further change. Their role proved vital in the launch of Safeway's high-low promotional strategy in 1999 – a response to the Every Day Low Prices (EDLP) approach of Tesco and Asda. The new programme required an increase of 2 million cases in weekly volumes for promotion products. Safeway drew

heavily on 3PLs to get the system up and running in six weeks, creating cross-docking and rewriting forecast systems. The retailer's relationship with its 3PLs had now matured fully into a strategic partnership.

Safeway now faces new supply chain challenges in the shape of reverse logistics, satellite depots for fluctuating volumes and consolidation through regional DCs. In response Safeway has focused on transport – through an 'Integrated Transport System' being developed with 3PL Wincanton – and people – by building single teams and offering similar benefits to 3PL and in-house staff. In conclusion, Mark Aylwin offered three key arguments for outsourcing:

- Third parties do add value – both tactically and strategically
- Accountability must remain with the retailer
- Partnerships with industry leaders create industry-leading supply chains

Session Q&A

Asked why Safeway did not outsource more, Mark Aylwin said that keeping 50% in-house maintained the Safeway culture; if 3PLs did any more they would become more like a supplier. Safeway also needed to retain expertise in logistics, he stressed. John Harvey offered a different view through the example of Wal-Mart's exclusive logistics provider in the US, which is fully integrated into the retailer's culture.

GLOBAL SOURCING – DISPELLING THE MYTHS

The Experience of a Global Supply Chain

François Soulet, International Supply Chain Manager, Leroy Merlin, France

François Soulet described how do-it-yourself retailer Leroy Merlin had adapted its supply chain as it had grown internationally. A key landmark for the company was the implementation of its "vision" in 1995. This established a 'bottom-up-bottom' management system, allowing stores to decide which products they needed. This was followed in 2000 by a management reorganisation designed to support a worldwide operation. By 2003, Leroy Merlin had 260 stores in 6 countries and from next year will have more staff outside France from the first time. The company's strategy is based on four axes: operational excellence, product innovation, customer intimacy and local adaptation. This last priority inevitably limits synergies because the company's operations differ in each country.

In the supply chain, Leroy Merlin, like other retailers, has seen the function develop from logistics and transport to the end-to-end management of the flow of goods and information. However, when expanding internationally, it is crucial to avoid being "logistically correct". For example, a lot of suppliers are not able to join a modern supply chain because they do not have internet or even electricity at certain times. Leroy Merlin's response to this reality is to develop "extensive logistics" rather than an integrated worldwide supply chain.

François Soulet illustrated this approach with reference to Poland. Leroy Merlin faced serious delays in supplying its Polish stores, with transit time from France up to 18 working days. To improve speed and reliability, the retailer first concentrated its flows: ceramics coming from Italy were put on a single train route, while the remaining goods from France were centralised at a platform near the border. The next step was to select a single customs post in Poland, open 24 hours, for its lorry deliveries from France. This was important in view of varying customs procedures in Poland. To help communication with officials, Leroy Merlin also appointed a Polish-speaking route manager. In terms of organisation, the retailer also created a local logistics team in Poland and adapted logistics procedures. The special character of administration in Poland also required some improvised solutions: to avoid losing documents to insistent customs officials, Leroy Merlin closed documents with a seal indicating that they should not be opened until arrival.

As a result of these changes, Leroy Merlin reduced its transit time from France to Poland from 18 to just under six days. Other key benefits include an 80% increase in orders, a 50% increase in volume and a 30% in margin for imported products.

The Experience of Local Sourcing

François Oliver, Country Manager, Carrefour, Romania

Carrefour is developing its brand in Romania by building hypermarkets in partnership with franchise-holder Hyparlo. Having opened a first store in Bucharest in June 2001, the French retailer recently opened a second hypermarket in the capital and is planning two more outlets over the next year. François Oliver explained how Carrefour adapted step-by-step in human resources and sourcing:

Human resources

- Transfer of **12 expats** to manage introduction of hypermarket concept and staff training.
- Training of 40 **Romanian graduates** in France in 2000-01 to be store and purchasing managers.
- Creation in 2002 of **IFRG** (French-Romanian financial institute) in partnership with universities and major French groups like Renault and Danone. 300 students are enrolled who spend 50% of their time at a company.

Local sourcing

- **Local engineer** recruited in 1999 and trained in France. He then travelled across Romania to select products and identify suppliers.
- **Market research** during 2000-01 covering all existing stores and products in order to understand the needs of Romanian consumers.
- **Assortment** of 58,000 SKUs created, supplied by 1,357 suppliers. Meetings held with all suppliers to explain Carrefour concept and value of partnership.

- **Human resources** for the purchasing department: food and non-food poles were created with 12 staff each.
- **Assortment construction** with adaptation of offer to local consumers. Only products not existing on the market are imported.
- **Supplier relations** have been strengthened through training in retail practices (e.g. barcode, labelling) and support in business development.

This development phase has already proved a success, with the first Carrefour hypermarket in Bucharest recording sales of 100 million euros for its first year. Adaptation has been the key, particularly in terms of bulk offerings for value-conscious consumers. At the same time, Carrefour has started to change consumer habits, contributing to a sharp increase in beef and poultry consumption.

Session Q&A

Asked if Romania represented a model for other countries, François Oliver argued that it could be repeated if there was commitment. François Soulet noted that Leroy Merlin was running a similar programme to train Chinese staff in France. He stressed that there was no model for international expansion given the importance of adaptation. He gave the example of Russia, where Leroy Merlin started by appointing a local logistics director in view of the scale of the challenge. In non-food, François Oliver said that Carrefour sourced 100% of textiles in Romania. He explained that many products were assembled in Romania, an approach that avoids customs expenses and paperwork. At the same time, local sourcing brings benefits for the retailer in terms of the knowledge of the suppliers, he added.

CPFR – THE IMPOSSIBLE DREAM?

CPFR – The Silver Bullet?

Daniel Corsten, Professor, Kuehne Institute for Logistics, St Gallen University, Switzerland

Many of the predictions made about CPFR (Collaborative Planning, Forecasting and Replenishment) since its launch five years ago have proved to be ‘myth’, Daniel Corsten argued. High expectations were created in particular by Wal-Mart senior VP Randy Mott, who asserted that “CPFR is the single largest opportunity to move inventory management forward in the next five years”. In fact, the range of applications and benefits of CPFR has turned out to be much smaller than thought. The results of the recent worldwide study on “Retail Out-of-Stocks” showed that CPFR had little or no impact on the problem. Moreover, many people in the industry knew that CPFR was not bringing benefits but failed to raise the issue.

So what was CPFR supposed to do exactly and why has it been unsuccessful? The initiative was designed to improve retailer-supplier relationships through collaborative planning processes and share information. It is based on the idea that accuracy in forecasting can be improved (c. 10-40%) by getting the next customer in the chain to participate directly in calculating forecasts. The high expectations of

CPFR came above all from the misconception that it was the next ECR. Five years on, the initiative is limited both by a lack of commitment and a lack of ability to implement the processes. Daniel Corsten explained this failure in terms of '10 pitfalls':

1. Too academic and complicated (although not invented by academics!).
2. Time-intensive (requires a lot of communication between retailers and suppliers).
3. Bulk-supplier driven (CPFR dominated by multinational manufacturers).
4. Bulk-retailer-driven (driven by cash & carry and not suited to smaller formats).
5. A solution looking for a problem rather than vice-versa (like many new technology solutions).
6. Data-intensive (problem to turn data into knowledge).
7. One-sided approach (companies need more flexibility rather than more forecasting).
8. Control-oriented (not suited to local needs of retailing).
9. Ambitious and demanding goals.
10. Irrelevant tool that has proved more promise than performance.

CPFR was thus poorly defined but collaborative planning remains important. Two alternatives exist for retailers: "richness" (i.e. collaborating a lot with a few suppliers) and "reach" (i.e. collaborating a little with a lot of suppliers). Sainsbury is one retailer to have opted for "reach" (using a SID Extranet), while Metro is among those to have focused on "richness" (using CPFR). The key to implementation is finding the right structure (i.e. aligned to your size, products, formats) and the right processes. An example from the computer industry shows the impact tailored collaboration can have: instead of imposing penalties for wrong forecasts, computer companies agreed to put money into an account to invest in systems.

Summing up, Daniel Corsten said that CPFR was overrated. Its ideas are not bad but they were over-prioritised. Retail companies simply have more important things to work on these days, he argued.

CPFR – The North American Experience

Mark Doiron, Vice President Non-Perishable Merchandising, Hannaford Bros. Co., USA

CPFR in the US dates back to 1993 when Wal-Mart decided to reduce its out-of-stocks. A 1999 report from the Voluntary Interindustry Commerce association (VICS) argued that pilots had yield lower inventory and out-of-stocks and higher sales and service. However, few food retailers have joined the initiative and only 6% considered it an IT priority in a 2003 report from *Supermarket News*. So why has uptake been slow? Barriers to adoption have included a lack of infrastructure, processes and metrics, the onerous 9-step process created by VICS and absence of a

clear return. Mark Doiron also outlined two important general factors determining adoption:

1. **US versus Europe:** in Europe, retailers face low margins on national brands and have a large proportion of private label. This makes squeezing out costs vital for retaining margins. In contrast, food retailers in the US enjoy higher margins on national brands and generate fewer sales from private label.
2. **Hi-lo versus EDLC:** retailers operating a high-low promotional strategy have wide variations in delivery volumes and schedules, which makes CPFR a relevant option. However, EDLC (Every Day Low Cost) operators have much more predictable costs, so have less need for CPFR.

As an EDLC operator, Hannaford has built its supply chain strategy on relationship building rather than CPFR. To make this work, the supermarket chain has focused on developing an organisational structure that eliminates silos and on developing effective metrics. One area in which Hannaford applied this approach was inbound freight. The aim of the project was to reduce several million dollars in costs and improve customer service. A pilot with Kraft succeeded in reducing order cycle time from 7 days to 36 hours and 50 manufacturers are now involved in a time reduction programme. Hannaford has adopted state-of-the-art technology not as an answer in itself but as a support for understanding relationships and processes. Internal and external collaboration has allowed the retailer to reduce costs and raise service but not in the CPFR way defined by VICS.

In conclusion, Mark Doiron argued that CPFR is an option for companies operating on razor-thin margins but is not a salvation. If you have a collaborative strategy and supporting processes in place, you do not need formal CPFR.

Session Q&A

On the issue of performance measures, Mark Doiron argued that it was vital for different departments to understand each other's measures; if the DC makes a change, the merchandising team downstream needs to grasp the impact and react. Asked if CPFR is just a fashion, Daniel Corsten stressed the importance of looking further to see value, as in the case of ECR. On the issue of problem versus solution, he argued that a problem (e.g. out-of-stocks) had to be identified first and a solution then developed around it. The problem of CPFR was that it went away from concrete inventory issues to become a whole theory.

PRIMARY DISTRIBUTION – CAN WE BOTH WIN?

How Retailers and Suppliers Work Together to Eliminate Costs from the Inbound Distribution System such that Both Sides Benefit?

Mark Aylwin, Co-Chairman, ECR UK, & Supply Director, Safeway, United Kingdom

Chris Poole, Co-Chairman, ECR UK, & Logistics Director UK & Ireland, Procter & Gamble, United Kingdom

The demise of ECR has been greatly exaggerated, **Mark Aylwin** argued. It is not just a conference but also an organisation that integrates national initiatives into a European agenda and shares best practices. ECR UK has a three-fold purpose:

- Leadership and guidance on 'hot topics'
- Forum for retailers and suppliers (board is split 50-50)
- Supply chain centre of excellence

The current 'hot topics' for the ECR UK board are: transport optimisation; packaging; on-shelf availability; learning and development. Transport has become the centre of attention because of controversy over primary distribution; also known as factory gate pricing (FGP). This practice involves the retailer taking control of transport upstream at the manufacturer's production site, rather than at DC level. Problems have arisen in the UK because of the aggressive approach taken by Tesco but this has had the merit of putting the issue on the ECR agenda. Collaboration is crucial since otherwise costs are created that are passed onto the consumer.

Chris Poole looked at FGP as one of several options for transport optimisation. The basic logic for ECR is that transport can be operated by whoever can do it most efficiently. There are a number of factors affecting transport optimisation, such as cost, driver shortages and systems availability. In response, companies can adopt practices ranging from FGP to backhaul and consolidation centres. To make the right decision, companies will have to consider the following key areas:

- Retailer-supplier relationships
- Core competencies
- Distribution asset base
- Consistency
- Capability
- Commercial Implications

Safeway for example had opted to use backhaul i.e. loading outbound lorries rather than letting them return empty to the supplier. The retailer transported 1.2 million pallets a year in this way, generating £13.6 million in extra revenues in 2002/03. The programme had also produced a number of joint benefits for Safeway and the 250 participating suppliers in terms of visibility, capacity and availability.

Mark Aylwin summed up ECR UK's role as creating "a roadmap to navigate the issues". In the field of transport optimisation, the organisation has developed a "decision engine" to allow members to be clear about their transport strategy. This may seem obvious but many companies, including big ones, do not know what their strategy is. For companies that are unsure about their position, the tool leads them through different areas to see what best fits their needs. The decision engine is to be launched at ECR UK in November and will be available as a 'blue book' designed specially for SMEs. The key point is that no one size fits all in transport optimisation. The focus is on adding value with particular partners. Industry tools such as the "decision engine" do not sacrifice competitive advantage, he concluded, because they have to be implemented properly.

A French Retailer's Solution to Inbound Transportation Optimisation

Gilles Lebreux, President & General Manager, EASYDIS, France

Easydis is the logistics division of French retailer Casino. Its management is divided between food, non-food and distribution, with special subsidiaries for transport and exports. In 1999, Easydis was faced with several key operational problems: short lead-times, which put suppliers under pressure; multiplication of transport companies; complex administration; lack of optimisation and consolidation. The company decided to introduce a pilot in the west of France. The region was chosen because it is a centre for the agribusiness (supplying 7 million cases per year to Casino) and represents a logistics challenge, given its distance from Casino's headquarters in southeast France.

The solution was based on a "3rd Party exchange". Under this system, one transport company was given responsibility for liaising with suppliers. Casino sent its orders to suppliers and the transporter at 11am, who then prepared the product and fleet accordingly. The delivery was then organised between 3pm and 5pm, with lorries either arriving at local DCs by 5pm or at the regional DC by 7pm. To support this transport system, an IT project was introduced covering assortment and ordering to take into account suppliers' transport requirements, together with programmes for time and transit, receivables and commercial optimisation. The benefits of the pilot included a 1% gain in service level during 2000/01 and 1 million euros in transport savings, shared with the transporter, thanks to better space utilisation in lorries. The project is now to be extended to three other regions. Gilles Lebreux stressed that it was not a national strategy but a pragmatic approach targeting areas with a large agribusiness.

Session Q&A

On the difference between factory gate pricing and backhaul, Mark Aylwin said that Safeway had not chosen the former because buyers do not have the logistics knowledge to be able to negotiate transport rates with suppliers. Backhaul had been chosen to support better availability in stores but the process was gradual since it is too risky to go straight over to another system. Asked about inventory levels, Gilles

Lebreux said that Easydis had not seen a significant change but that the major gain had been in service, through better time management. Mark Aylwin noted that Safeway's use of consolidation centres for fresh food in growing areas had yielded a big benefit in availability. Asked why ECR UK was optimistic about its transport optimisation initiative, Chris Poole pointed out that there was a lot of support, with supply chain directors choosing the issue as their number one 'hot topic'. Both Mark Aylwin and Chris Poole agreed that the basic aims of transport strategy were improving service and reducing costs. Again, ECR plays an important role since it avoids costs being created across the whole industry.

RFID – MOVING ON FROM MYTH TO REALITY

RFID Application in the Warehouse – The Productivity Benefit

Pierre Enderlé, Executive Vice President, DHL Solutions, France

Pierre Enderlé explained how DHL Solutions, a leading provider of integrated logistics solutions, implemented RFID warehouse applications in France. The importance of RFID lies in tracking, which is at the heart of logistics. The barcode has allowed companies to standardise communication globally but now a new engine is needed to drive this progress forward. RFID has the potential to do this by bringing changes in the following areas:

- Staff numbers: reduction in handling and inspection times
- Reliability: systematic automation reduces inspection points along the chain
- Stock optimisation: acceleration of flow rates from warehouse to destination
- Modernisation: impact on other areas like inventory
- Stock loss: product locating functions reduce theft

Despite these major potential gains, implementation still lags behind. The major reasons are: unit costs (1-5 euros cf. 0.01 euro for a barcode, although the price has fallen to 0.30 euros for large orders); a lack of technical standards; significant IT integration costs. Initial logistics applications are now planned for 2004, with retail applications expected in 2005.

DHL Solutions adopted RFID tags for its fashion clothing division. This sector was suited to RFID because of the homogenous packaging of the goods (i.e. all items are delivered on hangers), their seasonality (i.e. timing and reliability are crucial) and their high value. At the same time, checking all such items using barcode is laborious. DHL Solutions created "The Fashion Chip", which can hold up to 64 times more information than a traditional barcode. The chip tracks each item from the supplier to the store. The garments arrive from the supplier hung on rails and pass between two antennae, which checks the order as they are unloaded. This automatic process has made loading 12 times faster. The application has also sped up inventory delays by 16 times since garments are all automatically identified in the warehouse.

In addition to facilitating inventory control, Fashion Chip has also provided the option for stores to run quicker inventory checks and improve anti-theft security.

Looking ahead, Pierre Enderlé predicted dramatic growth for RFID, with the market for tags alone reaching US\$1 billion by 2007. There were also as yet undeveloped areas of supply chain management that will swell demand. Assuming 33% annual growth, the overall market for RFID could reach US\$3.3 billion by 2006. As companies become more aware of the need for end-to-end information control, RFID will play a pivotal role, he argued.

The Results of a Retailer's Pilot

Ian Mumby, Head of Supply Chain, Logistics & IT – Food, Marks & Spencer, United Kingdom

There are myths surrounding RFID but there is also an emerging reality, Ian Mumby argued. He described Marks & Spencer's trial of the technology at a warehouse in the north of England. The retailer's RFID programme dates back to a first demonstration in 1995. This has been followed by tag trials in 2002, intake trials this year and will lead to store systems in 2005. RFID represents a response to the challenge of M&S' supply chain: 2 million trays are handled per week, with factory to shelf delivery taking an average of 24 hours for chilled foods. Speed is thus vital for the company and RFID can offer this.

Ian Mumby summarised a number of myths about RFID to show its practical use:

1. **Cost:** the higher initial cost of tags compared to barcodes (75 cents per 300 trips cf. 1.5 cents for barcodes) is eliminated by the savings from reusing them.
2. **Frequency:** this is often cited as a source of problems but M&S established 13.56 megahertz as its optimum frequency. Adjustable multi-frequency is now emerging which will make reception more reliable.
3. **Interference:** M&S tested 3,000 tags in proximity to metal but experienced no signal problems. Unlike UHF tags, RFID tags do not experience interference provided the frequency is correct.
4. **Temperature:** the temperature itself is not the problem, rather the change in temperature. M&S' tests found that tags are not destroyed by sudden variations but only temporarily deactivated.
5. **Water:** pallets were put through washers without the tags being affected
6. **Distance:** M&S is testing a door portal with a 1.5m reading range. It is still a problem to get a full doorway field but EU approval for increased power for readers will help this.
7. **100% accuracy:** tag data can be wrong but speed allows the time to check and correct any errors.
8. **Lifetime:** M&S has 10-year-old tags that are still working, proving that tags do have a long lifetime.

The real benefits of RFID comprise both broad supply chain change and specific process improvement. On a general level, RFID is an enabler for reengineering the supply chain; leading to higher productivity, lower out-of-stocks and better availability. More specifically, the technology can potentially reduce scanning time by 80% for intake at the warehouse; improve vehicle turnaround by 30-50%; create savings of 2 million euros per year in label costs; improve tray utilisation by 5%. Summing up, Ian Mumby stressed that while there was a lot of work to do, the M&S trial proved that RFID is not myth but fact.

Metro Future Store Initiative

Gerd Wolfram, IT Strategy, IT Buying & Development Services, Metro, Germany

Jochen Rackebrandt, Director Customer Service KFI, Kraft Foods International, Germany

Gerd Wolfram and **Jochen Rackebrandt** first outlined six key mega-trends that are shaping global retailing: uncertainty; changing demographics (ageing population); consolidation; low price (discount); globalisation; technology. The last factor is a key enabler in developing supply chain efficiency and Future Store reflects this technology influence. Metro wanted to test out a range of innovations to see where efficiencies could be generated and value created for partners and consumers. The retailer collaborated with 39 companies, including IT system operators and CPG manufacturers such as Kraft.

The Future Store is in fact a 30-year old store in Rheinberg, Germany, that was refurbished and then relaunched in April 2003. Test innovations include a personal shopping assistant that loyalty cardholders fit to their trolley; the device offers a navigation system to locate categories in the store, specific product information, a personalised shopping list and advertisements on promotions. RFID was incorporated in the project to leverage process benefits in terms of increased information capacity and greater speed and reliability. In particular, Metro aimed to approach two key goals of 'never empty shelves' and 'no misplaced products'.

The RFID project covered end-to-end distribution, with portals fitted at each stage in the chain to register stock movements. Kraft is one of four manufacturers participating in item-level RFID. On the sales floor at Rheinberg, RFID-tagged products are stocked on 1 metre 'smart shelves' that fall within the range of an antenna. The objectives of Metro and Kraft in the trial are to get real experience of RFID and measure process changes and benefits along the supply chain. The partners both see long-term gains for the food sector in inventory, merchandising, promotions and order management. They do not see item-level tags coming in during the next five years but it is important to prepare for the future when store-level RFID will arrive. Gerd Wolfram and Jochen Rackebrandt shared some key learnings from the RFID trial to date:

- Quality assurance issues arose regarding the strength of labels and readers.
- Finding the right frequency is a case of trial and error.

- A lot of training and preparation is needed to adjust processes.
- Lack of standards is a problem but the creation of EPC Global is a positive step.
- Availability of solutions for European applications is an issue.

Panel Debate Session: The Milestones over the Next Couple of Years

Moderator: Olivier Vidal, Partner, Accenture, France

Helen Duce, Director Europe, Auto-ID Centre, United Kingdom

Pierre Enderlé, Executive Vice President, DHL Solutions, France

Ian Mumby, Head of Supply Chain, Logistics & IT – Food, Marks & Spencer, United Kingdom

Andy Robson, Business Development Manager, CHEP, United Kingdom

Gerd Wolfram, IT Strategy, IT Buying & Development Services, Metro, Germany

Helen Duce described the key RFID milestones for the next two years as the creation of global standards by EPC Global [the new body set up by EAN and UCC to be responsible for RFID standards and technical development] and Wal-Mart's requirement that its top 100 suppliers fit tags on pallets by January 2005. Growing momentum is driving down the price of tags, she stressed, a process being helped by the European Adoption Programme (EAP). **Andy Robson** pointed to forthcoming European legislation that will broaden frequency bandwidth and increase the power of readers. Having worked on RFID for five years, CHEP could guarantee that the technology works and looked to standards to help the whole business.

For **Ian Mumby** the next challenge was convincing the whole company about RFID. Two years is feasible for a rollout to other suppliers and warehouses, he argued. **Gerd Wolfram** explained that Metro's timeframe was much longer, because its supply chain is much more open than Marks & Spencer's 100% own-brand chain. He predicted pallet-level implementation within five years and item-level adoption over five to 10 years. **Pierre Enderlé** said that DHL Solutions was planning other pilots in the fashion sector, including one involving complete integration of the supply chain for the customer. After that, the next step would be targeting other companies with a small number of actors in the chain (i.e. easy-to-control supply chains).

On the issue of consumer privacy, **Helen Duce** said that the Auto-ID Centre had been working on a privacy project for the past two years. There were two main issues, she explained: the technical issue of being able to 'kill' a tag; and a policy position, which called for consumers to be informed of the use of tags, given the choice of killing them, and guaranteed that there was no connection between their identity and a product. **Gerd Wolfram** stressed the importance of discussing the technology with customers so that they understand what it does and does not do.

Regarding the potential costs of using barcodes and RFID tags in parallel, **Ian Mumby** said that there realistically companies would have to use both systems for a certain period, although disruption could be limited by separating categories and

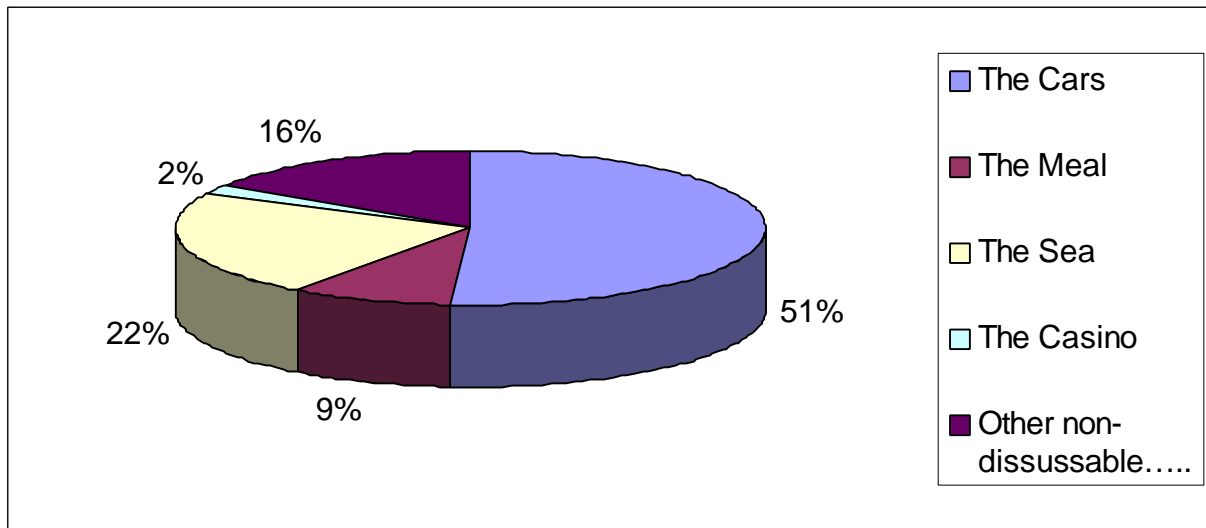
suppliers for tests. **Helen Duce** agreed that the two technologies would co-exist for some time but stressed that adoption would bring savings where it is suitable. On the impact of data systems, **Gerd Wolfram** said that Metro had only seen the tip of the iceberg. The group is running projects to filter out data from its systems that is not needed for RFID reading. **Ian Mumby** said that Marks & Spencer had opted for rewrite rather than licence-plate tags in order to avoid the problem of making changes in the central data system. **Olivier Vidal** added that IT architecture outside master-data is already being developed, so options are becoming available to support RFID.

Asked whether the creation of standards would slow down existing RFID projects, **Andy Robson** argued that it was not a major exercise given that it was building on UCC and EAN structures. Standards are in any case essential if the technology is to fly, he insisted. **Helen Duce** urged companies to keep momentum going to be ready when standards arrive. On the choice of RFID application, **Andy Robson** said that there was no 'killer application', but rather several options. **Ian Mumby** encouraged delegates to look at the biggest problem in their supply chain and see if RFID could help. For many the number one issue is out-of-stocks and RFID can solve it, he argued.

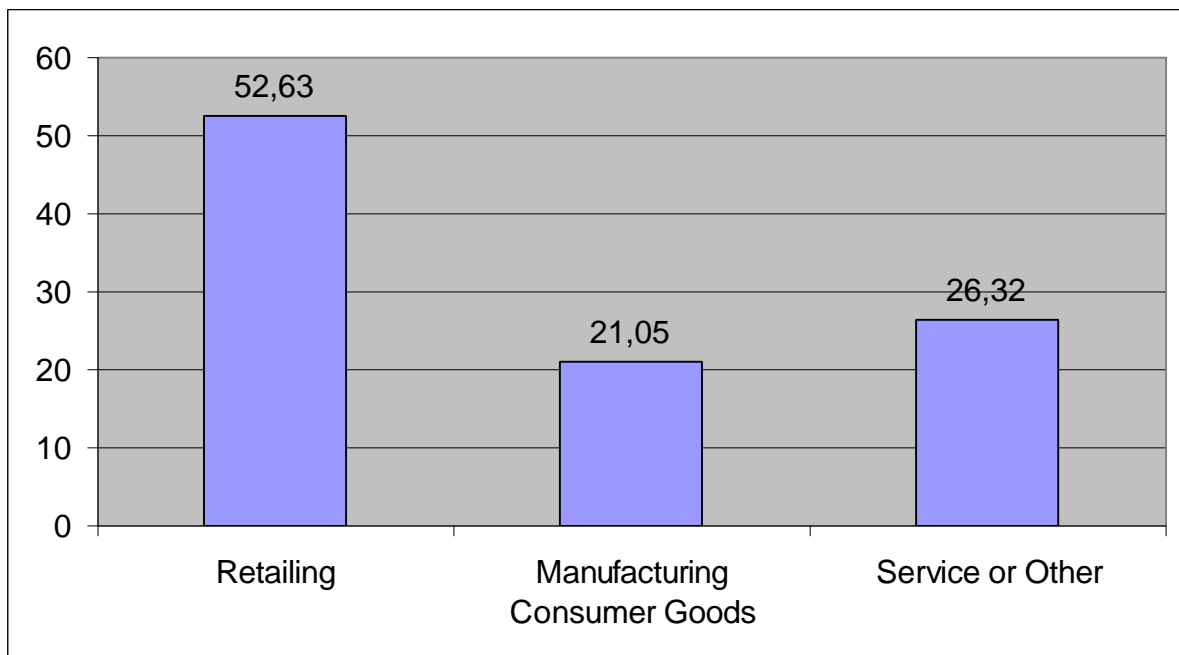
INPUT FROM PARTICIPANTS

To round off the conference, delegates gave their views on RFID and other key supply chains issues using an electronic voting system. The questions and results were as follows:

QUESTION 1 **WHAT DID YOU LIKE THE MOST YESTERDAY?**



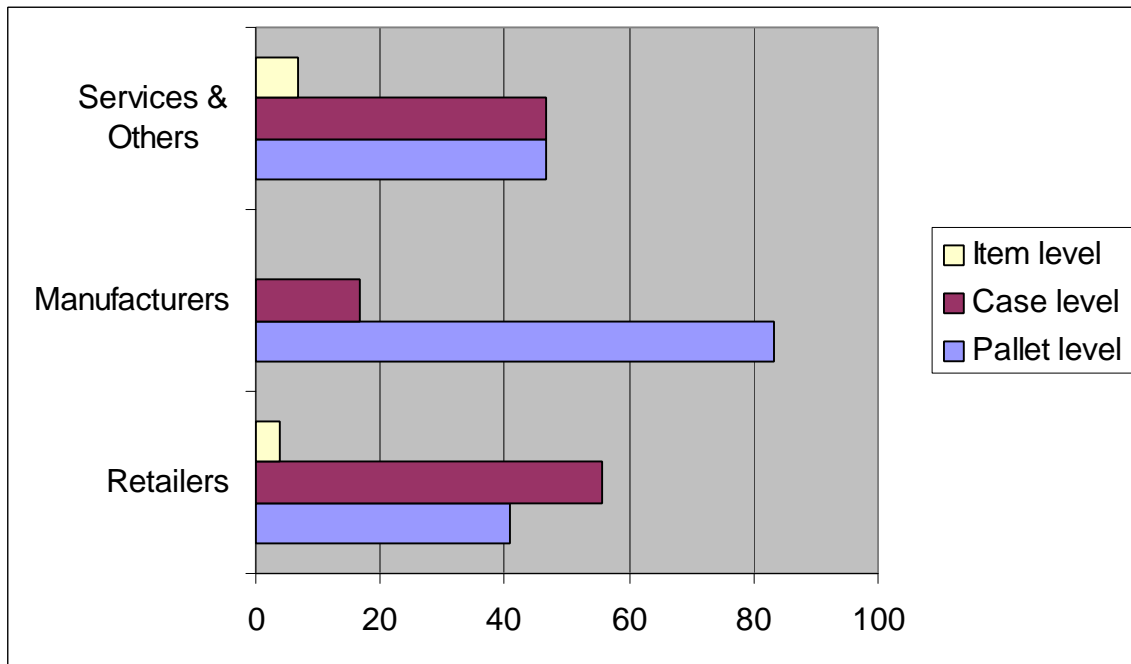
QUESTION 2 **WHAT SORT OF BUSINESS DO YOU WORK IN?**



Note: figures in the graphics represent percentages

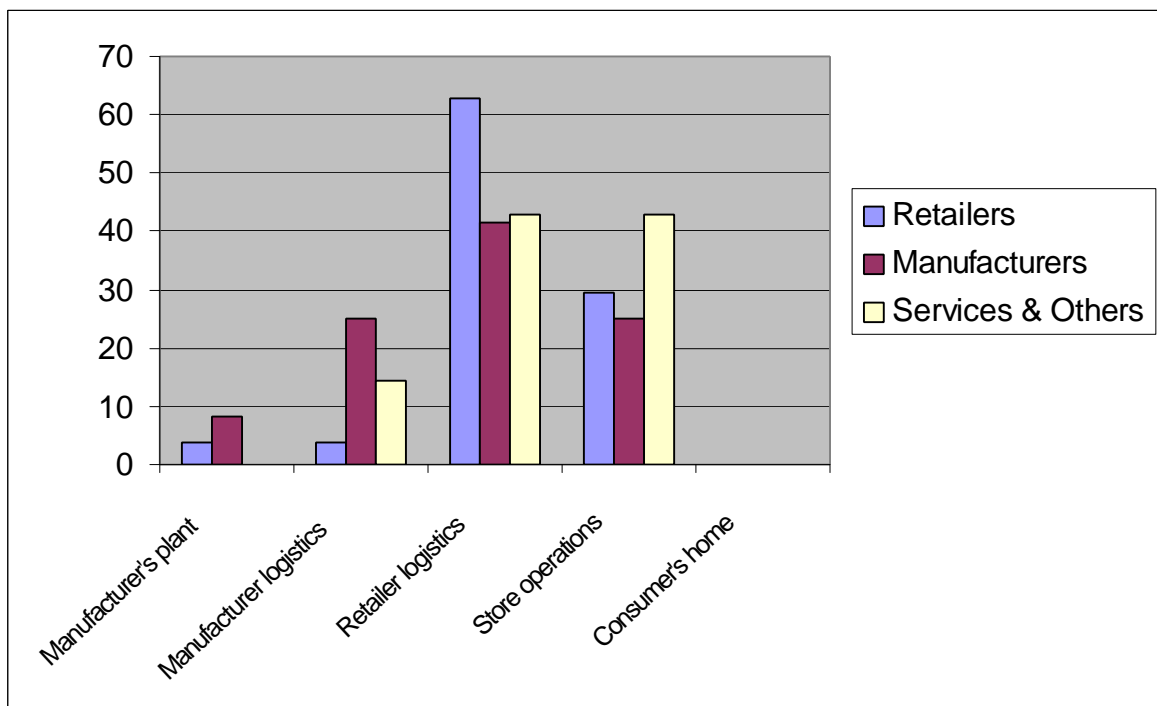
QUESTION 3

WHAT LEVEL OF TAGGING DO YOU SEE BEING MOST APPLIED WITHIN THE NEXT 2-5 YEARS?



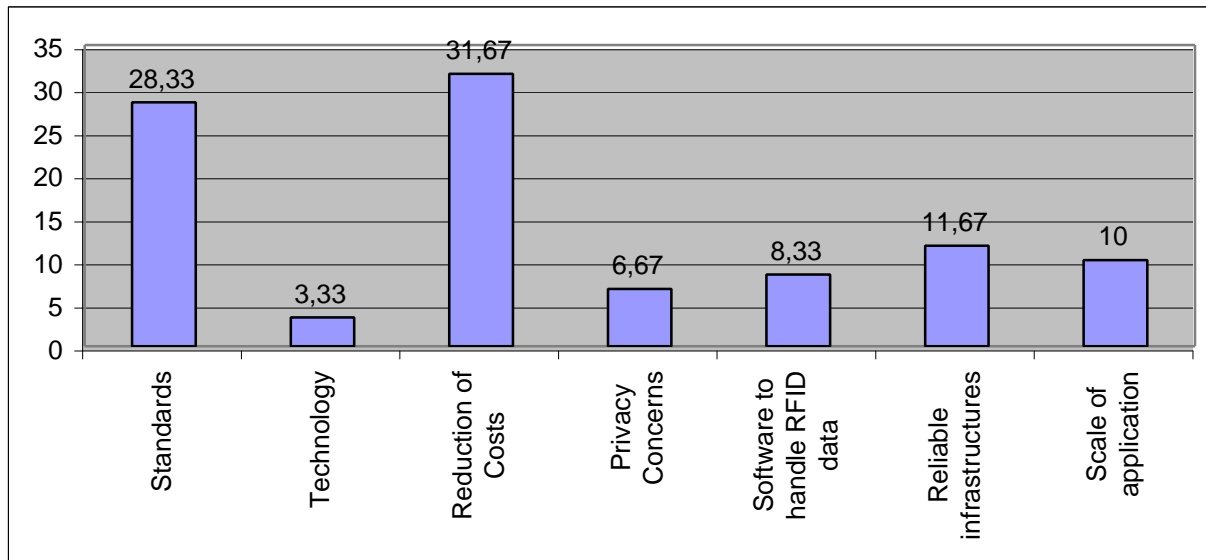
QUESTION 4

WHERE IS RFID THE MOST USEFUL?



QUESTION 5

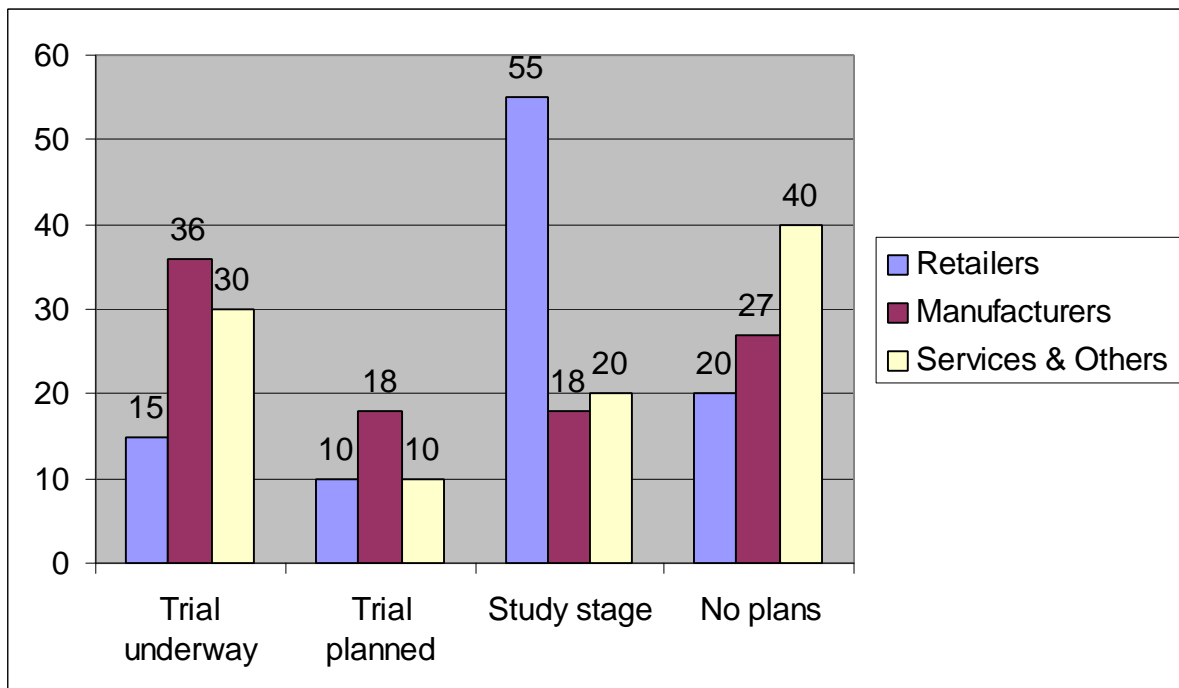
WHICH IS THE BIGGEST OBSTACLE TO OVERCOME IN THE NEXT YEARS TO MAKE RFID HAPPEN?



Note: figures in the graphics represent percentages

QUESTION 6

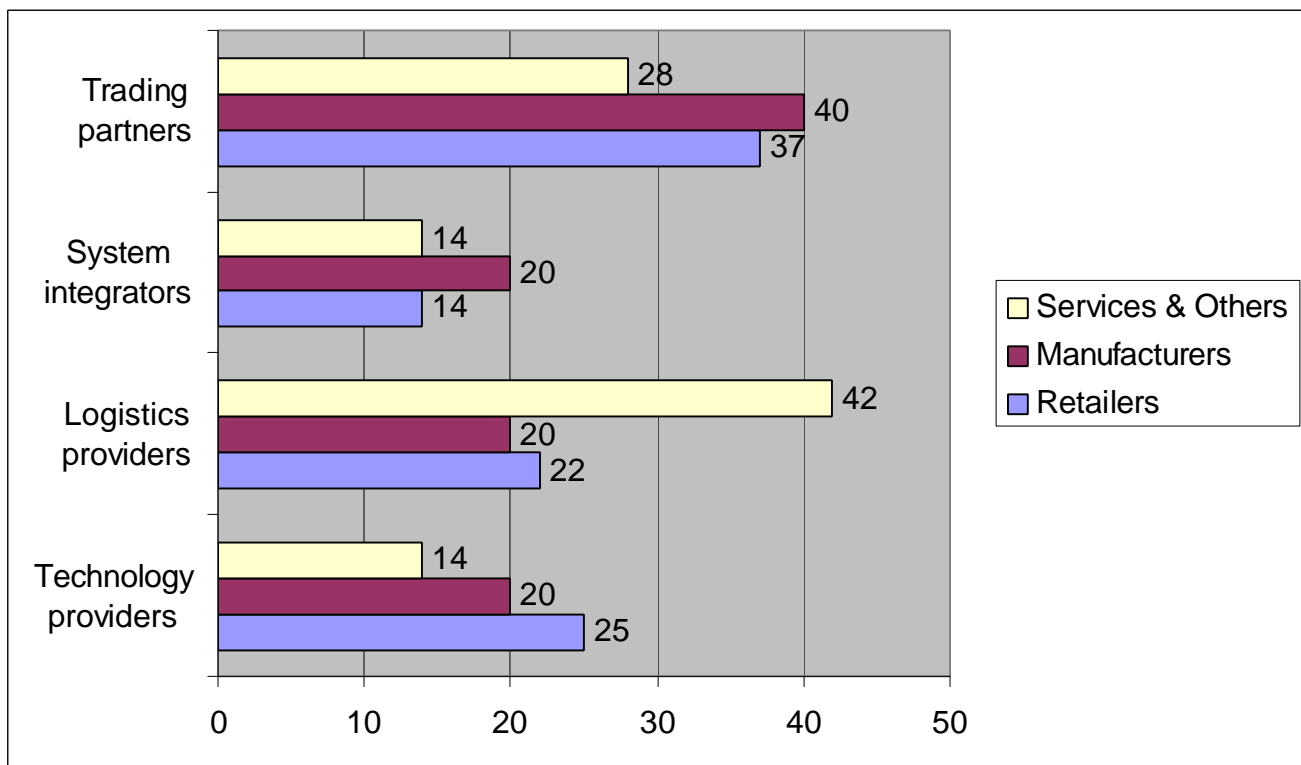
WHAT STAGE ARE YOU AT IN YOUR RFID AGENDA?



Note: figures in the graphics represent percentages

QUESTION 7

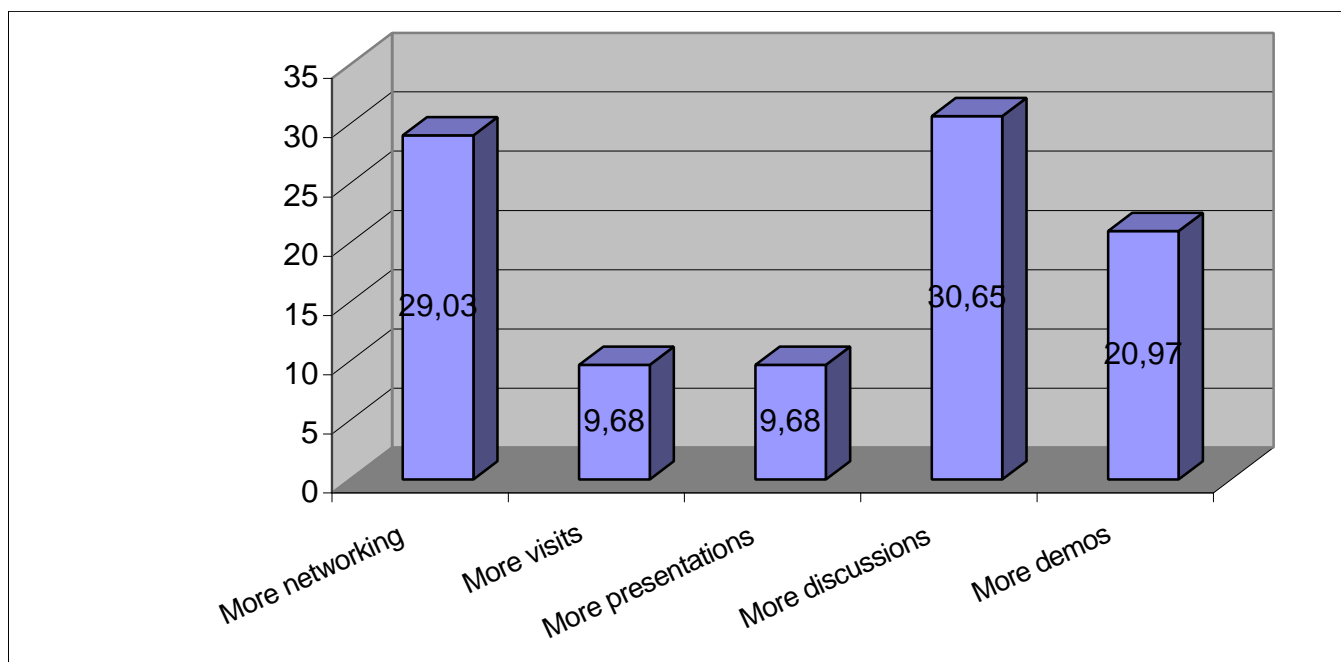
WHO DO YOU EXPECT WILL BRING THE MOST VALUE TO YOU IN THE AREA?



Note: figures in the graphics represent percentages

QUESTION 8

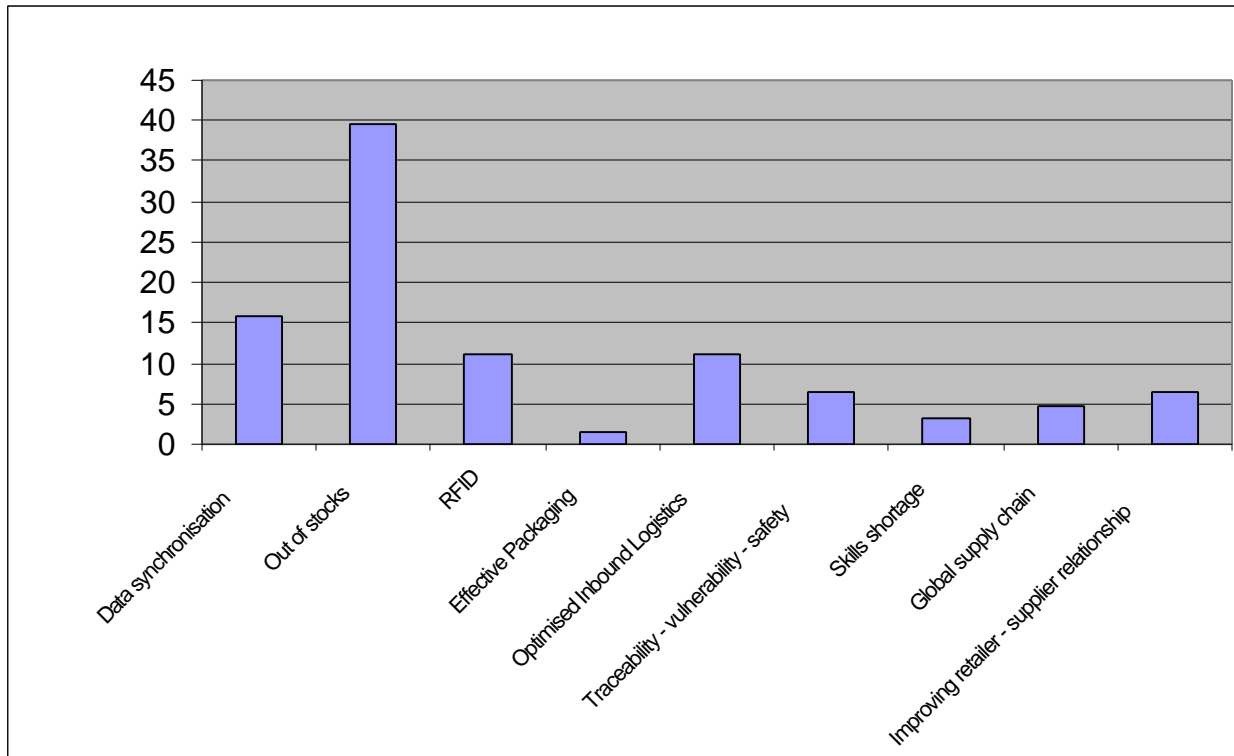
WHAT DO YOU WANT FROM THE NEXT CIES SUPPLY CHAIN CONFERENCE?



Note: figures in the graphics represent percentages

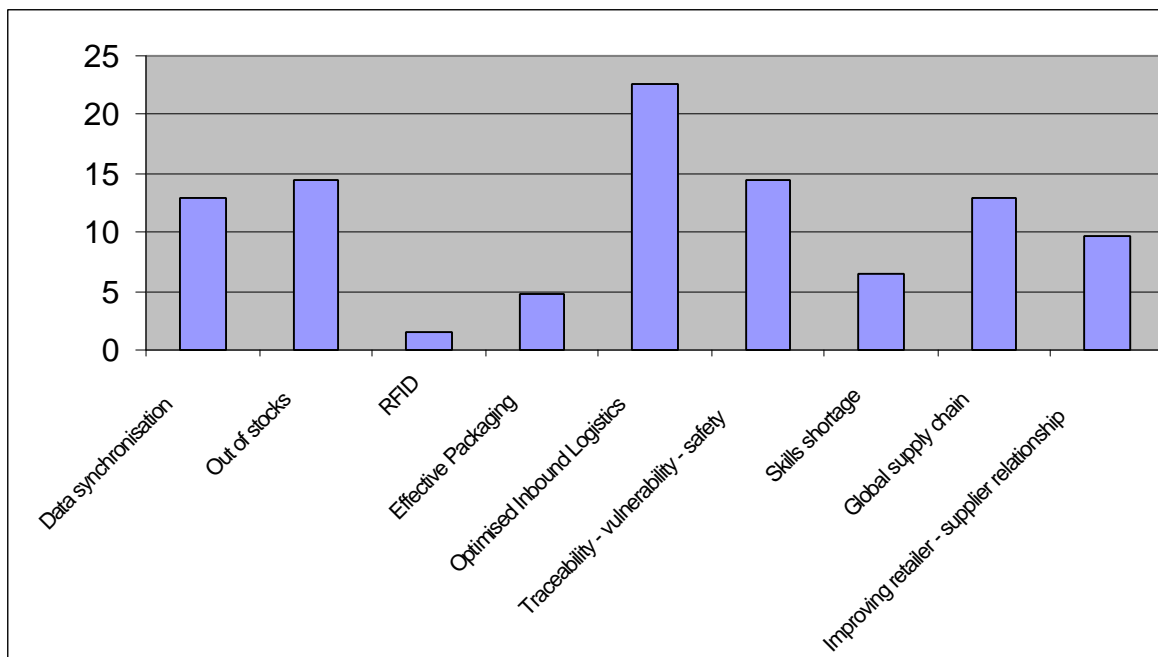
QUESTION 9

WHAT IS THE MOST IMPORTANT ISSUE IN THE NEXT 12 MONTHS?



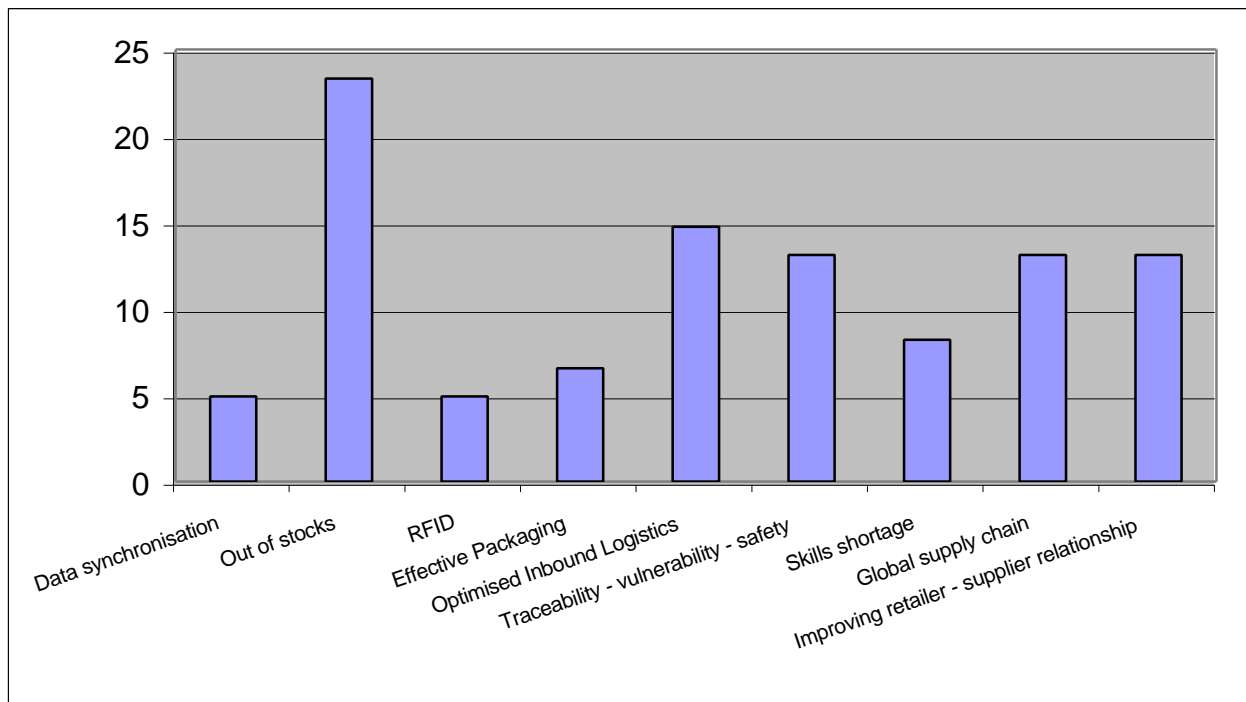
QUESTION 10

WHAT IS THE SECOND MOST IMPORTANT ISSUE IN THE NEXT 12 MONTHS?



QUESTION 11

WHAT IS THE THIRD MOST IMPORTANT ISSUE IN THE NEXT 12 MONTHS?



**THE EXECUTIVE SUMMARY IS ALSO AVAILABLE ON
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