

Implementing a “Best Practice” Strategy

..... A Cautionary Tale!

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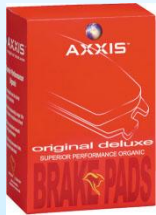
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The Bendix Challenge:

Configure To Order In Aftermarket Supply of Disc Pads

3500 Manufactured Line Items
8500 Sold Line Items



- Basic Product Warehoused in “Semi Finished” Form
- Product Packed in POS Carton only when customer order is received.
- 85% of business with 4 to 5 Key Distributors
- Way too much Inventory at every level in the supply chain
- Very erratic observed demand patterns

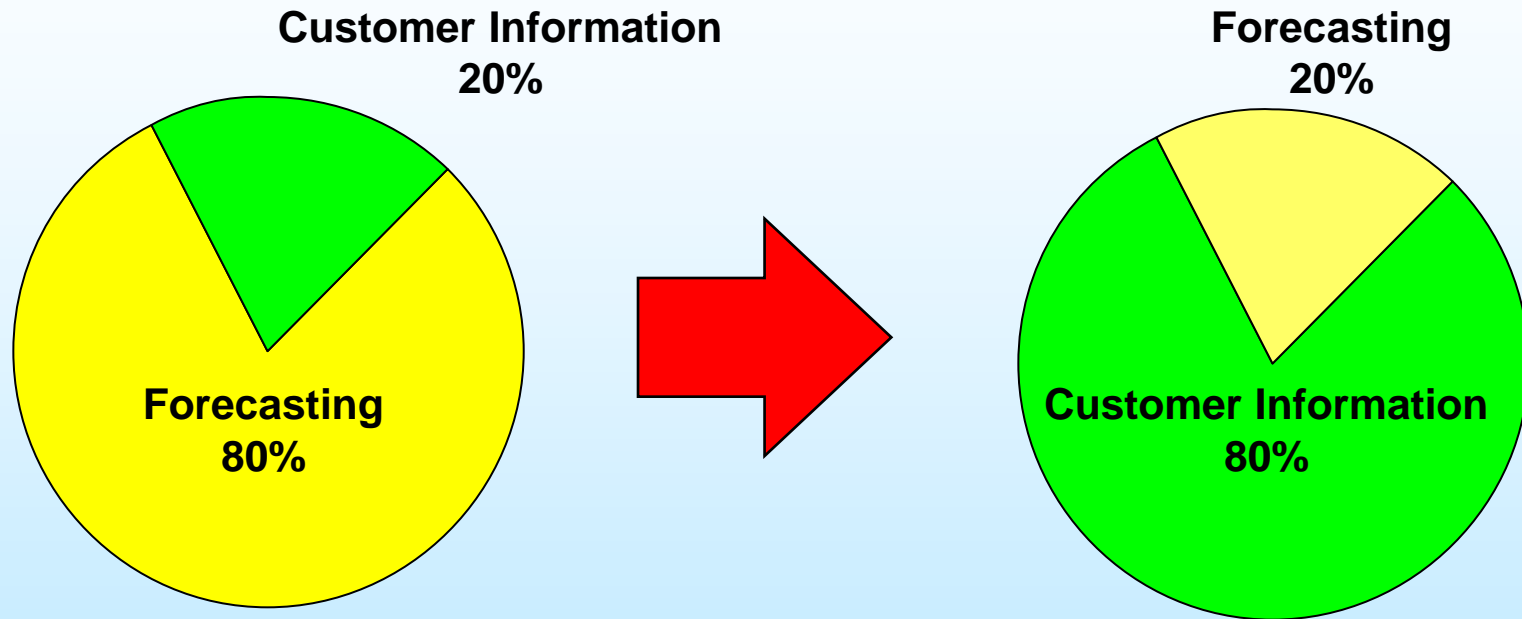
Forecasting Improvement Selected

Definition of Forecasting =

***“The Process of Guessing
Something That Someone Else
Already Knows!”***

Solution! = Forget Forecasting, Go
Find The Guy Who Knows and Ask
Him!

Current Issues In SCM



CUSTOMER INFORMATION GAINED FROM COLLABORATION REPLACES FORECASTING

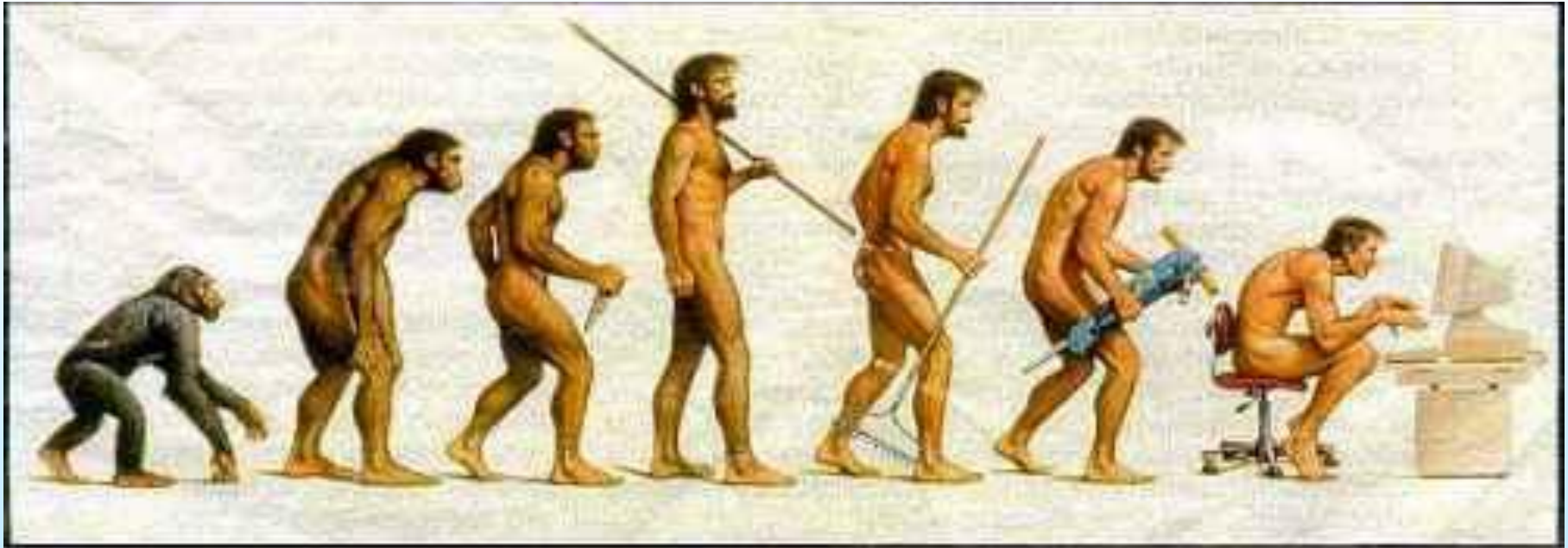
Then The Real Challenge!

To Collaborate Externally You First Need
To Collaborate Internally

We Were Trapped By Our History

Current Issues In SCM

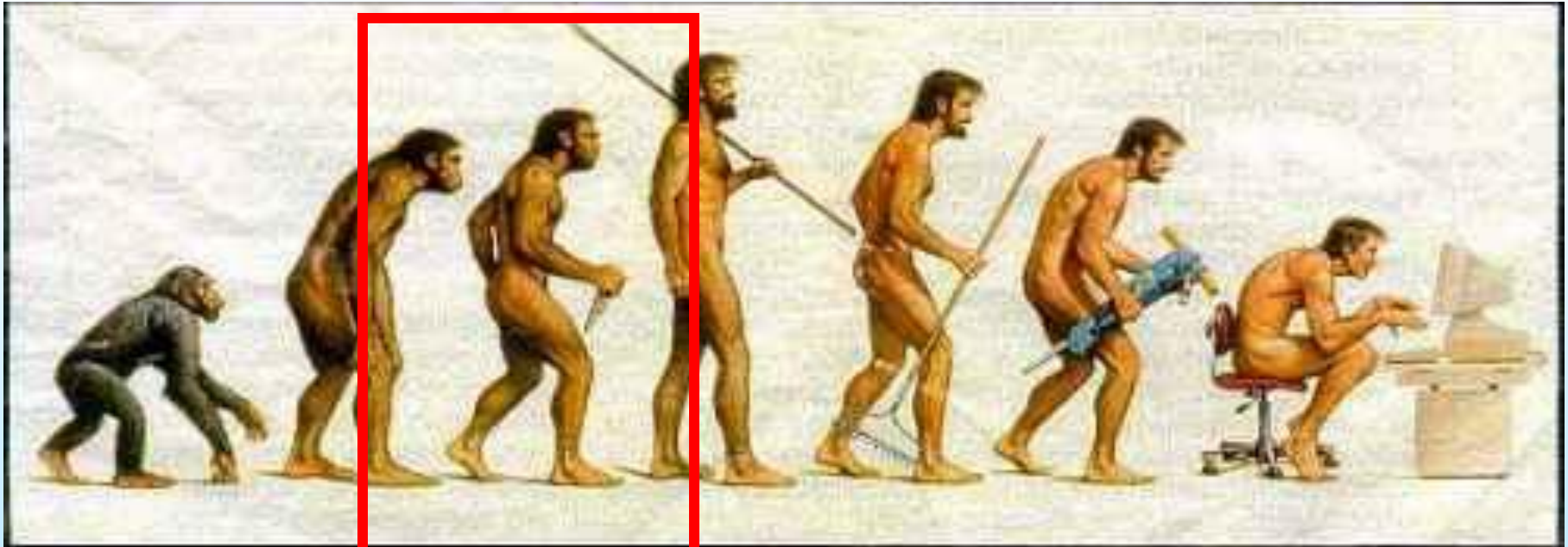
The Ascent Of Man



Somewhere, something went terribly wrong

Supply → Procurement → Materials Management → Logistics Management → Supply Chain Management

The Ascent Of Man



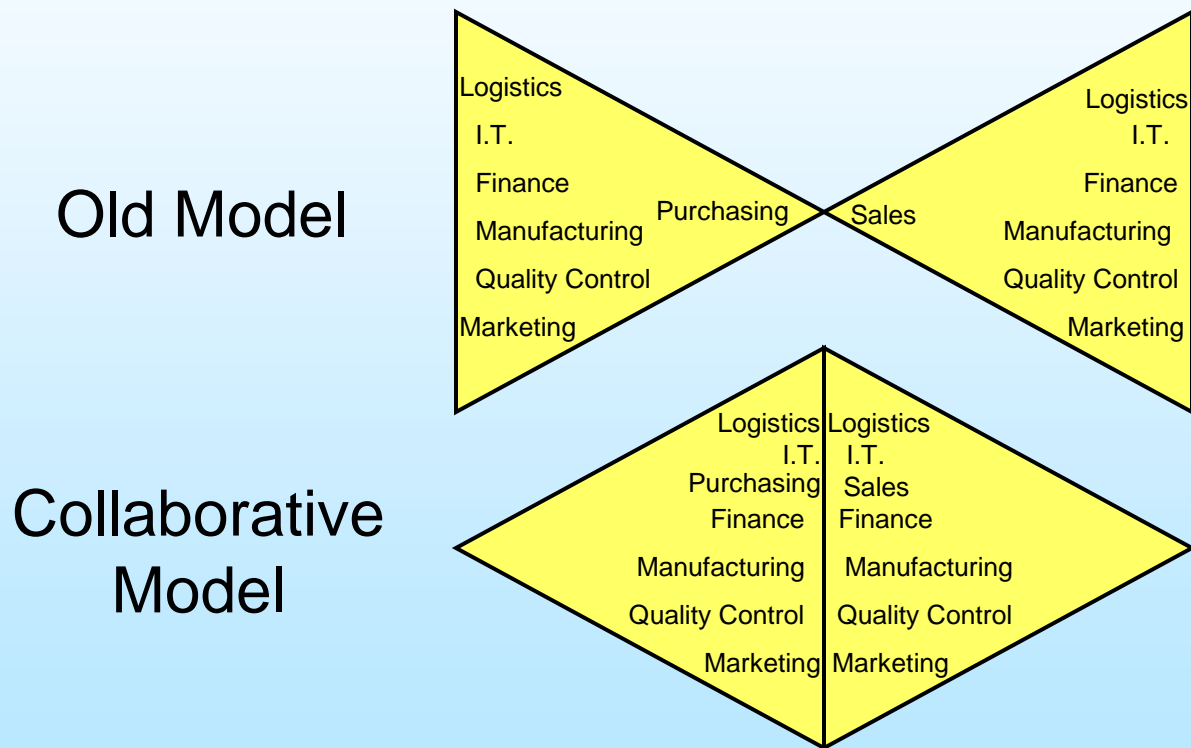
Somewhere, something went terribly wrong

Sales Team Problem No 1 =

“Do you want the Neanderthal’s talking to the Customers?”

External Collaboration:

- Sales Were Caught In An Old Paradigm.



- Supply Chains work best when you remove the commercial “games” from the day to day running.

Ready To Talk To The Customers

Coming The Other Way = **VMI**

Vendor **M**anaged **I**nventory

Benefit depends on where you sit:

Inbound logistics/Procurement = Hugs & Kisses

Outbound Sales = Tar & Feathers

***What we wanted was everyone to have
“Skin In The Game”***

The Search For Models

- Just In Time/KanBan – Automotive Industry
- Quick Response (QR) – Textiles Industry
- Efficient Consumer Response – Groceries Industry
- Collaborative Planning Forecasting & Replenishment (CPFR)

CPFR Appeared to be focused on Retail Distribution

We had a Candidate!

"I believe that CPFR is the single largest opportunity to move inventory management forward in the next 5 years. We plan to implement collaborative relationships with well over 100 suppliers in the next 12 months. We believe that CPFR is the driver for moving into the next era of buyer-seller relationships"

Randy Mott. Wall- Mart (2000)

Benefits of CPFR

Retailer benefits

Better Store Shelf rates

Lower Inventory Levels

Higher Sales

Lower Logistics Cost

Manufacturer Benefits

Lower Inventory Levels

Faster Replacement Cycles

Higher Sales

Better Customer Service

Typical Improvement

2%-8%

10%-40%

5%-20%

3%-4%

10%-40%

12%-30

2%-10%

5%-10%

CPFR Implementation (VICS Model)

- Evaluate your current state
- Define Scope and Objectives
- Prepare for Collaboration
- Execute
- Assess results and identify improvements

Read => Plan Do Check Action (PDCA)

CPFR Process Steps

- Develop front end agreement
- Create Joint Business plan
- Create sales forecast
- Identify exceptions for sales forecast
- Resolve/collaborate on exception items
- Create order forecast
- Handle exceptions for order forecast
- Resolve/collaborate on exception items
- Order generation

Collaboration Starting Out

- Initial Resistance
- Had to answer the WIIFM Question
- Once past The Gatekeepers we started

First Problem!

- ERP Systems: Otherwise known as:

“Random Number Generators”

- Need to find the little guy in the bowels of the organisation who feeds the ERP system with the raw forecast.

Why CPFR Worked In The Auto Parts Distribution Market

- We could see the “global” shape of demand by SKU
- We could see the shape of demand by region
- We had a picture of “emergency” orders from stores
- We could see seasonality
- They could see Point Of Sale (POS) Demand
- They could see promotions
- They could see new store openings
- They had a picture of Lost Sales

Note: The Big Retailers are still struggling to make CPFR work!

So What Did We All Get?

- Inventory Reductions

Manufacturer = 20%

Distributor = 40% in DC

- Increased Sales From Stores

Masked by Inventory Reductions

- Improved Forecast Accuracy

Most fluctuations within safety stock capability

- Improved Relationships At Operating Level

So What Happened Next?

- Inventory Reductions

Distributor used freed up working capital to set up an imported friction programme

- Increased Sales From Stores

Net sales in friction category went down for distributor, import programme didn't take!

- Improved Forecast Accuracy

Maintained some gains but "SLOBS" clearing caused problems

- Improved Relationships At Operating Level

Benefits maintained

So What Did We Learn?

- Collaboration can't be forced, either up or down the Supply Chain
- When the CPFR Process says “Develop front end agreement” & “Create Joint Business plan” they knew what they were talking about
- Companies have personalities (see John Gattorna) & you can't make the leopard change its spots
- The Collaboration “Diamond” must include Senior Management
- But Most Importantly = ***Collaboration Works!***

Where To From Here?

- The failures were not technical
- Relationships were the root cause of the failure
- Relationships are crucial to successful Supply Chains – Good Relationships can overcome Poor Systems but not the reverse!
- We don't measure Relationships with the same rigor as that applied to Inventory or Costs
- This is the ***Next Frontier*** for Supply Chain measurement and improvement.

Questions?

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