

Today's Challenge with the Grocery Supply Chain

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The Grocery Supply Chain

Compared to the supply chains supporting the large retail enterprises (Wal-Mart, Target, etc.), the grocery industry lags in using technology to eliminate latency and squeeze inventory and lead-time when moving goods from factory through distribution to store. With its highly competitive environment and notoriously slim margins, the grocery segment should be a fertile market for technology solutions that control the supply chain.

Yet, few examples exist of successful supply chain improvement programs. Technology investments are reluctantly made and rarely deliver the results that would make them worthwhile.

Big Investments, Disappointing Results

Technology projects aimed at improving supply chain performance in the grocery segment have, by and large, been expensive, requiring years of effort and yielding less than stellar results.

One cause of this disappointment comes from the people side of the equation; in many cases, processes are not changed – just automated. In addition, the workers along the chain are not taught or encouraged to adapt procedures to maximize the benefits. It does little good, for example, to automate pallet identification through bar-coding or RFID unless the resulting information is carried directly into planning and forecasting systems, where it can be used to improve replenishment and reduce inventories and shortages through greater visibility of goods location and movement.

On the technology side, the tools are often not flexible enough to adapt to the specific requirements of the grocery environment and do not provide enough ability for the users (non-programmers or non-technical) to make changes for a better fit with conditions and preferences. As a result, the new procedures are viewed as cumbersome and intrusive while the expected savings and improvements are not realized.

Look at what the general merchandise retailers have been able to do in making the supply chain more efficient – Wal-Mart, Target, and the others. They have generated huge savings by developing

and applying technology to provide great visibility. That hasn't happened in the grocery world.

Better Results In Retail

The systems that have been so successful in retailing have been developed over years of work and cost millions of dollars. In addition, to gain the benefits, these businesses have made some change on the user side in the way they do business. To date, the grocery people haven't been willing to do that because they have a different orientation. Historically, they have made their money on the "buy" side through things like accruals, discounts, rebates, and slotting fees. Retail supply chain systems address the process itself and require data collection and data sharing. This is new ground for grocery. But it's certainly worth pursuing.

The general merchandisers have shown the way. In order to operate most effectively, the goal must be to minimize inventory yet deliver higher availability. This requires global visibility from the point of manufacture to the point of sale. Data must be collected at both extremes and at points in between. And data must be shared. The manufacturer knows what was made and what was shipped where and when, but it doesn't necessarily know what sold and what's still in the retailer's warehouse or on the shelf. The retailer knows what sold and when but doesn't know what the manufacturer has forecast and is planning to make. The result is inefficiency and waste – over or under production, inventory in the wrong place or at the wrong time, shortages and customer satisfaction problems.

Collaboration Creates Value

Collaboration is what creates the value. The trading partners collaborate on forecasts and plans so that they are all working together toward the same goals. Unfortunately, it's not that simple. You might think the retailer would be in the best position to forecast based on sales by product, by store or region, by season, but that's a lot to ask. The manufacturer has a better handle on demand for their specific industry, whereas the retailer would have to be expert in a whole range of categories. With collaboration, you can capture the

best expertise available – have the manufacturer do the overall forecast based on knowledge of the market and have the retailer refine it based on their knowledge of local conditions and experience.

Where to Start

Pilot projects often focus on sharing Point-Of-Sale data with suppliers; that's a good first step towards the increased visibility that is needed. On the other side of the equation, manufacturers should be aggressive in involving the retailer in the forecasting process, through collaborative demand planning applications and processes. This, "closes the loop" and gets retailers involved in helping the suppliers become better partners.

Wal-Mart can justify spending huge dollars and a number of years developing supply chain and collaboration systems and working with trading partners to wrap these systems into the fabric of daily operations. Companies in the grocery segment don't have the budgets to do this, nor can they afford the time and effort required to build it themselves.

Fortunately, there are now packaged off-the-shelf application sets that have been developed, deployed, and proven in the retail general merchandising world. These can be adopted by the grocery segment at an affordable cost and implemented relatively quickly. With these tools, grocery segment companies bypass the discovery and invention stages and move right into implementation to gain quick benefits.

Using off-the-shelf collaboration and planning tools, retailers and manufacturers can work together on building and maintaining better forecasts that will allow more efficient and effective production, transportation, and stocking policies. Even better, they will have much faster and more effective reaction to changing demand.

It is especially important to coordinate on marketing actions and promotions to insure sufficient stocks of merchandise to meet demand changes actually driven by the retail end of the business. How often does it happen that a grocery chain will feature a special promotion on an item only to run out in the stores before the promotional period has elapsed? And how often does the spike in demand surprise a supplier, even if the supplier is involved somewhat in the initial planning? Furthermore, the supplier's planning systems might not recognize the reason for the change in demand and mistakenly think it's a new trend and over-plan future supplies as a result. Likewise, dips in demand can cause under-

planning and future shortages if assignable reasons for the change are not identified back to the plant.

Virtually all retail products are now bar-coded, so point-of-sale data is readily available for use in supply chain planning and execution. Emerging standards (and mandates) for case and pallet labeling will provide intermediate location and status data to bolster tracking and management capabilities. All that's needed is the infrastructure and applications to exploit this data and generate the savings and improvements that have been demonstrated so effectively by the leaders in the general merchandising space.

It's Not All Forecasting

Supply chain applications are capable of using the forecast and other inputs to develop and maintain intelligent inventory stocking policies, optimized transportation loads, and coordinated plans for the manufacturer, transportation provider, distribution resources, and the retailer. Embedded Business Intelligence (BI) features and toolsets monitor status and progress toward improvement goals, warn of impending problems, and measure effectiveness.

Of course, the bottom line is cost savings; however, a significant improvement in product availability boosts sales and contributes to customer satisfaction and loyalty.

Phil Masiello brings unparalleled experience in food channel management. Over the last 20 years, Mr. Masiello has been instrumental in integrating foodservice concepts into the retail channel and removing costs within the supply chain.

His leadership experience includes executive positions with Quick Chek Food Stores, Harris Teeter Supermarkets, Sutton Place Gourmet and as a co-founder of the Daily Market.

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