

Niagara University
Annual Logistics Conference
&
University of Massachusetts
FOMGT 341

How Leaders are Leveraging
Supply Chain Expertise

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Supply Chain Optimizers

Focused on helping clients reduce supply chain costs through:

- Packaging Optimization
- Network Optimization
- Transportation Optimization
- International Optimization

Supply Chain Management

- It is all about virtual integration
- Support comes from computer links to customers and suppliers
- External integration is not possible until internal integration has been completed
- Focus must be on mutual benefit or the process will not flourish
- Measurable results must be achieved

Supply Chain Goals

- Need to balance level of customization and complexity
- Too many companies have a “one size fits all approach”
 - need distinct supply chain by channel
- Differentiate between ‘logical’ and ‘physical’ supply chains
 - services, pricing, products can be unique

Supply Chain Challenges

- Increasing transportation expense
 - equipment availability may be as big
- Safety is #1 concern in food supply
 - can add 1% - 3% to costs
- Unreliable inventory management
 - gold standard: fast food fries
- Least cost country sourcing

Service Provider Dilemmas

- For logistics companies significant growth leads to increased over-management, less adaptability to market change
- Users want low price without commitment
- Differentiation between service providers is shrinking
 - Integrated logistics is the goal
 - Impossible to be all things to all clients
 - Transportation & warehousing still =80%

Lack of Integration

- US business culture does not encourage partnering between operations and S&M
 - often are adversaries
 - too many sales people are still compensated on volume...not profit
- CPG manufacturer supplying Costco was pleased with 7% annual sales increase
 - cost to serve Costco increased 6%/yr

Supplier Relationships

- Generally not as sophisticated or as well developed as customer relationships
 - but SRM has much greater value than CRM which has very spotty results
- SRM is in top five supply chain initiatives
 - 60% of companies want to improve connection, coordination, measurement of suppliers

Supplier Management

- Top 20% have lowered transaction processing cost with suppliers by 20%+
 - event monitoring technology doubles or triples chance of achieving 40%+ performance improvements
- Phone, fax, email still most popular means of exchanging information but internet is now preferred by all segments

Supplier Management Cont..

- Top performers attempt to measure entire relationship
 - domestic threshold is to monitor 6 or more events
 - international segment needs 10 or more measurements for clarity
- The best get extreme improvement in lead time reduction and increased perfect order

Relationship Paradox

- Businesses want to link with suppliers to cut costs
- Getting closer to suppliers is in itself risky
 - it is impossible to partner with suppliers without sharing information but the more suppliers know, the more leverage they gain in the relationship

Wal*Mart

Data Synchronization [Midyear '04]

- Now linked to 547 manufacturers
- Top 100 = 80% participation
- Companies supplying 200+ items = 27%
- Companies supplying 1 or 2 items = 3%

2004 Food Service Elite

- Attributes raising winners are
 - innovation
 - solutions
 - added value services
- Surveyed 470 food service operators and manufacturers
- McDonalds [27%], Wendys [20%], Subway, Darden, Outback are leaders in operator category

2004 Food Service Elite

Innovation begins with creative practical insights, with research that explores current and potential patron desires and behaviors and translates them into new *actionable* programs. This may cover not only unique menu offerings and services but also merchandising materials and programs to drive patron excitement and loyalty.

2004 Food Service Elite

Solutions are the results of innovative research and insights. They go beyond the basic tactics to benefit both operator and manufacturer businesses. Today, solutions may drive improvements to both the back of the house as well as the front. *Manufacturers can help with supply chain* and equipment/meal preparation in addition to product presentation and day-part management

2004 Food Service Elite

Added Value Services go beyond the basics of product training and specifications. Operators want to know how to use the product more efficiently and effectively. They are looking for *technical, culinary and product expertise from the manufacturers.*

Top Manufacturers

Tyson	27%	+3.3
Coca Cola	17%	+0.5
General Mills	15%	+0.4
Pepsi Cola	12%	+2.7
Kraft	11%	+0.9
Sara Lee	11%	+2.2
Kellogg	10%	+0.7
Frito Lay	10%	+1.9
Rich Products	9%	-0.8
Schwans	9%	+1.6

Elite Manufacturer Elements

- Clearest company strategy
- Best combination of growth and profitability
- Best products or brand names
- Best business partners
- Best sales force or broker teams

Elite Elements Cont....

- Most innovative marketing
- Leading information providers
- Category management leaders
- Best supply chain management
- Best new products

Customer Service

Order delivery commitment achievement

- Median: 81%
- Best in class: 96%

- Performance Management Group
reported in Supply Chain Management
Review May '04

Leaders Approach to Risk

- Risk taking ultimately delivers shareholder value...no substantial growth without it
 - but risk must be accepted and managed
- Leaders are leaders because they lead
 - take on risk and move ahead
 - less able firms miss chances as they are more risk averse or indecisive
 - recognize opportunity and act

Strategic Outsourcing

- Toshiba had no easy way to get broken laptops returned for service
- Now laptop customers drop off units for repair at UPS store
- UPS moves all units to central repair facility operated by UPS
- Repaired units are returned to customer via UPS delivery

Another Example

- Kellogg's operated food manufacturing plant with only 40% utilization
 - cost & volume circumstances negated efforts to add more products
- Outsourced entire operation + high costs to Total Logistics Control which purchased plant, equipment, people, business
- TLC added volume from other companies

Grocery Sales

● Costco	61%
● Wal*Mart	44%
● Walgreens	38%
● CVS	31%
● Target	18%
● K Mart	14%

....2003 Results

Share Forecast 2007

	<u>2004</u>	<u>2007</u>
● Traditional Grocery	56%	48%
● Supercenter	11%	17%
● Dollar Store	1.5%	3.0%
● Drug	4.4%	5.2%

- All traditional food & food/drug formats are declining. Sav-a-lot is fastest growing retail food chain behind Wal*Mart.

Wal*Mart

- Supercenter food sales in 1st quarter '04:
 - up 24%
 - same store sales “almost double digit”
- Food sales are now \$82B
 - can be up to \$162B by '07...35% of US market
- Aggressive expansion for supercenters
 - converting traditional stores

Private Label

- 22% of supermarket sales in Europe
- 42% share in UK, 21% in US
- Wegmans = 11.5% of items, 25% of \$
- Tops = 7% of items, 16% of \$
- Overall growth is much faster than national brands and provide retailers higher profit
- Quality equal to or better than national brands at all leading chains

Private Label

- Store brands grew 2.3% in 03 (+\$1B)
 - national brands grew 1.4%
- Store brands now make up:
 - 21% of all units
 - 16% of \$ (account for \$43B in total)
- Aldi is primarily private label
 - Publix and Loblaws have outstanding quality and wide array of products

Food Service Barcoding

Goal for case barcodes is 96%

Actual performance:

1999 54%

2000 61%

2001 69%

2002 72%

2003 77%

Midyear '04

RFID

- First barcode 1974 on Wrigley's Juicy Fruit
- RFID tags will be in short supply for next six months
- Target is 5 cents per unit...now at 25+
- Excellent potential for warehouses on random storage and inventory accuracy
- Can also track temperature and dating

Impact of Complexity

- Chrysler's Dodge Ram offers 1.2 million vehicle combinations
- Competing Toyota Tundra offers 22,000
- Ram sales decreasing, Tundra increasing
- Between line efficiency and fewer variations Toyota's manufacturing labor cost is 80% lower than Chrysler's

Lessons From Leaders

- Better internal integration
 - more people on the same page
 - understand corporate strategy
- Strong continuous improvement mentality
 - open to consider change & new concepts
- Recognize opportunity and move quickly
- Many strengths & no major weaknesses