CUSTOMER FOCUSED SUPPLY CHAIN STRATEGIES

Presented by:
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MOST ORGANISATIONS SEE SUPPLY CHAINS AS A PAIN:

- Not core business
- Does not drive sales / market share
- Easy to outsource
- Adds cost not value

“Many companies dismiss SCM solutions as it is irrelevant to their business needs because they don’t realise that the key to competitive advantage lies within managing the supply chain. Instead, companies often believe success is tied to product design or the ability to sell. Changing this mindset is the first hurdle in the SCM plan”.

Jim Kilpatrick, Deloitte Consulting
MOST GOVERNMENTS SEE SUPPLY CHAINS AS A PAIN:

- Not core country needs
- Does not economy / votes
- Adds cost not value
DOES IT ADD VALUE?
LET'S ASSUME HAVING A GOOD SUPPLY CHAIN:

- Can increase market share
- Does drive sales
- Provides competitive edge
- Is core business

RIGHT GOODS → RIGHT TIME → RIGHT PLACE → RIGHT COST

A world class supply chain?
FOR COUNTRY - HAVING A GOOD SUPPLY CHAIN

- Can decrease total cost to economy
- Can make country more competitive
- Provides competitive edge
- Is core business of country

A world class supply chain?
CUSTOMER SERVICE FOCUSED SUPPLY CHAINS

This presentation is all about:

- Case studies – on customer focused supply chains
- How to achieve customer service focused supply chains
- Where world class business is going?
Customer Focused Supply Chain
CASE STUDY
Reference: B Knichel
CUSTOMER FOCUS

- Measuring REAL customer satisfaction
- Availability
CUSTOMER FOCUS

- Measuring REAL customer satisfaction
- Availability
- Range
Customer Focus - Availability

- Traditional methods
  - DC or vendor to store service level
  - Store out of stock ‘walks’
  - Systemised lost sales calculation

- New Methods
  - Online shop
  - ‘Could you buy everything you wanted?’
CUSTOMER FOCUS - Availability

- Traditional methods
  - DC or vendor to store service level: 98%
  - Store out of stock ‘walks’: 97%
  - Systemised lost sales calculation: 96.5%

- New Methods
  - Online shop
  - ‘Could you buy everything you wanted?’
CUSTOMER FOCUS - Availability

- Traditional methods
  - DC or vendor to store service level: 98%
  - Store out of stock ‘walks’: 97%
  - Systemised lost sales calculation: 96.5%

- New Methods
  - Online shop: 92%
  - ‘Could you buy everything you wanted?’
CUSTOMER FOCUS - Availability

- Traditional methods
  - DC or vendor to store service level: 98%
  - Store out of stock ‘walks’: 97%
  - Systemised lost sales calculation: 96.5%

- New Methods
  - Online shop: 92%
  - ‘Could you buy everything you wanted?’: 75%
HOW DID THEY FIX THIS?

- Total focus on customer
- Continuous customer surveys
- Implement customer corrective action (e.g. more tills, pleasant cashiers, better supply chain for fresher product, better supply chain for more range, better supply chain for more non-foods etc)
In 1996 Tesco took a different look at supply chain management

Replenish Shelves  
46%

Deliver to Store  
9%

Assemble Order  
19%

Deliver to Depot  
18%

Supplier Production & Packaging  
?

Gather Data  
5%

Process Orders  
1%

Manage Store Orders  
1%

Manage Supplier Orders  
0.5%

Total Supply Chain  
12.2%

Management & Development  
0.5%
So what did they do
HOW DID THEY FIX THIS?
Less Touches
Less Touches
Least Touches
Least touches
Least Touches
Tesco profits break through £2bn
Overseas expansion and non-food lines have boosted sales

Supermarket giant Tesco has become the first UK retailer to unveil annual profits of more than £2bn.
The UK's biggest supermarket chain posted underlying pre-tax profits of £2.03bn ($3.83bn), up 20.5% on 2004.
A few local examples
Technology Options

Pick into rolltainer & move to dispatch
If you use rolltainers you don’t need cages
Traditional unload method
Once in the trade, use can be made of tail lifts to unload rolltainers.

Tail lifts used throughout the world for many industries.
Lots Touches
Lots People
PERCEPTIONS OF SERVICE

CAREFUL – DIFFERENT PEOPLE HAVE DIFFERENT PERCEPTIONS OF SERVICE:

EXAMPLE:

SA SURVEY – RETAIL INDUSTRY

1. Want to be treated with respect
2. Want availability
3. Price
PERCEIVED SERVICE LEVEL

Examples – South Africa:

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Their measurement of service</th>
<th>Customers measurement of service level</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMCG Supplier in RSA</td>
<td>92%</td>
<td>68%</td>
</tr>
</tbody>
</table>

How to measure actual service levels:

- Number items dispatch on time in full?
- Shelf fill level at customer?
- Final consumers perception of service level?
Service is not fill level from warehouse: Example:

**Warehouse service level**
- 99.999% service
  - Maximum 30 min from order dispatched
    - To courier (average 18 min)

**But**
- Up to 24-hours to enter order
- Up to 24-hours to approve credit
- Up to 24 hours to assign phones
- Availability new phones often low

**Real service level**
Delivery in full on time from customer first contact
Lowest cost is not necessarily the Best

Example:
- Clothing Retailer

- Warehouse / DC in Cape Town
  65% of customers in Gauteng

But:
- Cross dock facilities in Durban & Gauteng
- Fixed route deliveries

Low frequency delivery and distant supply leads to:

- Long lead time
- High back end stock rooms
- Difficulty in reverse logistics
- Lots of stock outs
- Inability to do intelligent 1 for 1 replacement
- Off site stock rooms
- Minimal special orders from customers
- Unhappy stores
- Less happy customer
M&S SERVICE LEVELS

When you stop being customer focused..........
AVAILABILITY IN SA?

Often Poor

- No understanding of **total supply chain**
- Manufacturers are driven by costs
- Manufacturers are driven by manufacturing
- Lack of service level agreements
  - Internal
  - External
# REAL VALUE

**CUSTOMER SERVICE IS ALL ABOUT:**

<table>
<thead>
<tr>
<th>TRADITIONAL WISDOM</th>
<th>CUSTOMER FOCUSED WISDOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quicker delivery</td>
<td>Speed and reliability from demand to customer</td>
</tr>
<tr>
<td>Lowest cost</td>
<td>Appropriate cost</td>
</tr>
<tr>
<td>High service levels</td>
<td>High availability</td>
</tr>
<tr>
<td>Focus on customer</td>
<td>Focus on consumer</td>
</tr>
<tr>
<td>Push systems</td>
<td>Pull system</td>
</tr>
<tr>
<td>Continual special offers</td>
<td>Every day low prices</td>
</tr>
<tr>
<td>Internal needs come first</td>
<td>Customer needs come first</td>
</tr>
</tbody>
</table>
MYTHS:

- Outsourcing will improve customer service
- Balanced scorecards / benchmarking will increase customer service
- Customer service can be achieved without spending on people and facility resources
- Less / more inventory will improve customer service
- EDI, e-logistics, e-data, e-business will improve customer service
CORE NEEDS FOR AN EFFICIENT SUPPLY CHAIN STRATEGY:

- Intelligent business strategy
- Treat total supply chain to end user
- Appropriate infrastructures (facilities, kit and transport, IT, etc)
- People resources
- Customer focused strategy
WAYS THAT WILL IMPROVE SERVICE:

- Understand what your customers want
- Make sure it is not what you think he wants (or want him to want)
- Decide to what level you will satisfy these wants
- Integrate this into a logical business plan
- Set up a supply chain strategy to meet business plan
- Set up logical supply channels to market
- Set up resources to meet supply chain strategy
- Always see big picture – not components
RESOURCES TO MEET SUPPLY CHAIN NEEDS:

- Forecasting
- Inventory strategy
- Production / procurement planning
- Inbound strategy and resources
- Storage strategy and resources
- Picking, dispatch and transport strategies (outbound strategies)
- Delivery and merchandising strategies
- Payment strategies
- Physical and people resources
- 3rd party resources
- Technology resources
- IT resources
RESOURCES TO MEET SUPPLY CHAIN NEEDS:

- Not accepting bad decision making
- Not accepting less than world class
- Not accepting “we are different” to anybody else
- Not accepting stupidity
- Not accepting under funding
RESOURCES TO MEET SUPPLY CHAIN NEEDS:

- Not accepting bureaucracy
- Not accepting corruption
- Not accepting “it can’t be done”
CAN’T HAVE WORLD-CLASS SERVICE IF YOU CAN’T MEASURE / BENCHMARK

SILLY MEASUREMENTS = SILLY RESULTS
CONCLUSION

- Most supply Chains are not customer focused
- Most supply chains “worry” about service but:
  - Measure it badly
  - Are not prepared to spend money to improve
Real Customer Focus begins at the top. It can only happen with visible, passionate, relentless, commitment by all.