

Responsive Supply Chain - competitive advantage for all the links of the chain

Nerius Jasinavičius

Managing partner
TOC sprendimai

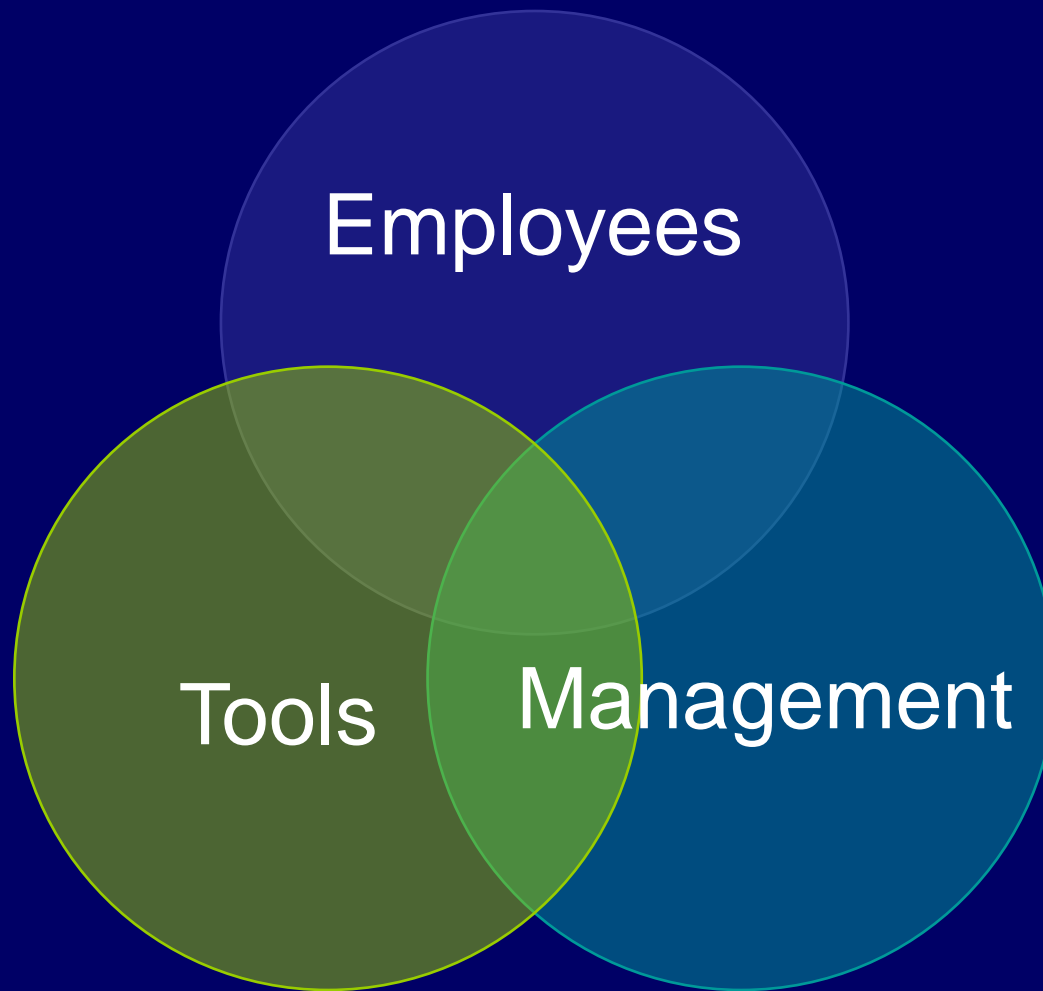
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Goal of the company



**Make money
now and
in the future**

What impacts the results



Question



Retailer,

Distributor,

Producer

friends or enemies ?

I. Newton once said



*Natura valde simplex est et
sibi consona*

Nature is exceedingly simple
and harmonious with itself

Some assumptions



- Before final consumer has bought, no one in supply chain has sold
- Variety in assortment and availability of the products on the shelves encourage consumers to buy
- Besides poor quality, shortages are the main reason for a consumer's disappointment.

Can we agree, that...



- Better availability is a consumer's significant need.
- Expecting to find an SKU and being disappointed severely erodes the consumer's impression of good availability.
- Shelf space is usually the shop's constraint for better availability. A significant amount of the constraint is captured by merchandise that were ordered according to an overly optimistic forecast.
- Offering many products that the market doesn't want is not contributing to the impression of availability. When the product's market-life is not long, the slow reaction time of the supply chain causes the offering to be based more on educated guesses, rather than on actual market preferences.

At the same time...



- The current mode of operation of most supply chains, a mode of operation that is based on forecast, causes the supply chain to have a long replenishment lead time. A long replenishment time causes shortages and high inventories that block the shelf space and impair the ability to adjust the offering to the actual market preferences.
- Shortages and high inventories do not only erode availability, but also (dramatically) reduce sales and increase investments.

Effect of availability on sales of retailer



- What is your level of availability ?
- Does 98% availability means you are loosing only 2% of sales ?
- On what products does stock-out happen?
- What products you have too much ?

What can we do ?

- Because our sales forecasts are lousy, we must improve our forecasting procedures



Really ?

Better solution



- Retailer has to switch from a forecast-driven mode of operation to an effective consumption-driven mode of operation – Responsive Supply Chain.

From PUSH to PULL

From PUSH to PULL



- Switching from Push to TOC Pull-distribution mode of operation which is based on actual consumption – together with a proper incentives scheme to the suppliers (or better, to have suppliers which use the same consumption-based mode of operation), ensures very high availability coupled with surprisingly high inventory turns.

It takes two for tango



- Retailer switches its internal logistics from push to pull according to actual daily consumption.
- Retailer implements TOC buffer management to monitor and adjust the target inventories in its shops and its warehouses.
- The Retailer provides daily consumption orders to its suppliers and incentives to deliver, with shorter lead time, on time.

Benefits



- Let's make some **very conservative** assumptions:
 - Sales would go up by 10% due to better availability.
 - The amount of reduced price sales would go down significantly.
 - Let's assume that 10% of the sales will be sold at 10% higher price, on average, due to less need to get rid of slow items.
 - The current average margin is 35%.
 - The current profitability of the retail chain is 2% of the total sales.
 - Considering that 65% of the sales are purchasing expenses and 2% is the profit, it means 33% of the sales are the regular operating expenses (OE).
 - What would be the profitability of the co-operation implementing Responsive Supply Chain?

Benefits



- Due to the superior availability we get 10% more sales with 35% margin. So, we get 3.5% of the original sales as additional profit.
- Due to sales in premium price, rather than reduced price, we get additional 1% profit.
- What about the absolute value of the OE?
 - The total inventory would go down significantly.
 - Quite a lot of cash would be released.
 - The rise in sales could lead to reductions in the price of the supply.
 - More reporting and checking have to be done, but less inventory have to be handled.
 - Let's assume that the total OE would not change.

Financial Example



	Original	With RSC	Notes
Sales	100M	111M	10% increase in sales plus 1% increase in Margin
RM Cost + Other total variable costs	(65M)	(71.5M)	The cost is up only by the amount of increased sales
Fixed Costs	(33M)	(33M)	Fixed costs are the same!
EBITDA	2M	6.5M	
Profit %	2%	5.9%	

Mutual benefits



- When increasing profitability more than 2 times, Retailer can (and should) give incentives to the suppliers for supplying according to consumption and ensuring availability

As a summary



- Reality is exceedingly simple and **harmonious** with itself
- It is possible to achieve win-win solution for all the links of the chain
- Responsive supply chain increases availability, reduces inventory, increases profits for all the links of the

Good Luck !!



**Luck is what happens when
preparation meets opportunity**

Seneca

**Crisis is what happens when
unpreparation meets reality**