



The Virtual Supply Chain: How to Make The Weakest Link Strong Through Web Based Collaboration

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Today's Discussion

- Why Collaborate, Why Now?
- A Case Study: Collaboration in Retail
- A Simple Model That Offers Flexibility
- Lessons Learned and What to Think About



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Why Collaborate, Why Now?



The New Consumer

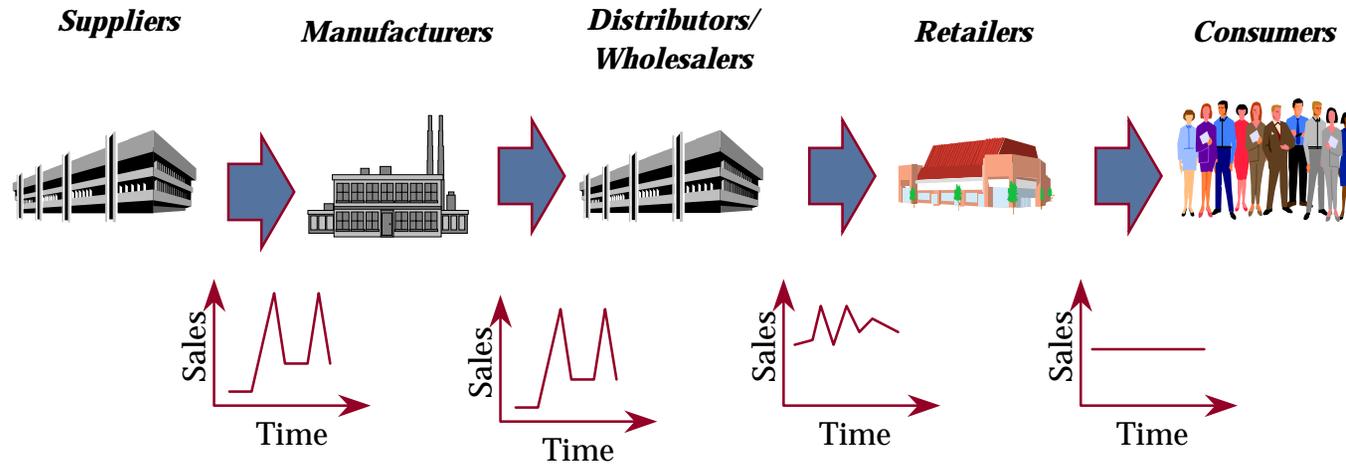
Placing a critical challenge on the Supply Chain

- The empowered consumer demands greater value, new products faster, personal service, convenient and multiple formats, shorter purchase stopwatch
- Powerful global retailers now favor suppliers based on ability to meet these demands, and match product content and flow to actual customer demand
- While no one can accurately predict the business process challenges that will confront CPG companies in coming years, we can ensure we are ready to meet them

*Companies **Must organize around the consumer** in a way that not only meets today's challenges, but is **responsive and flexible enough to meet whatever lies beyond.***

The Challenge

Exaggerated In The Bull Whip Effect



To ensure in-stock, manufacturers hold excess inventory of *\$472 Billion*

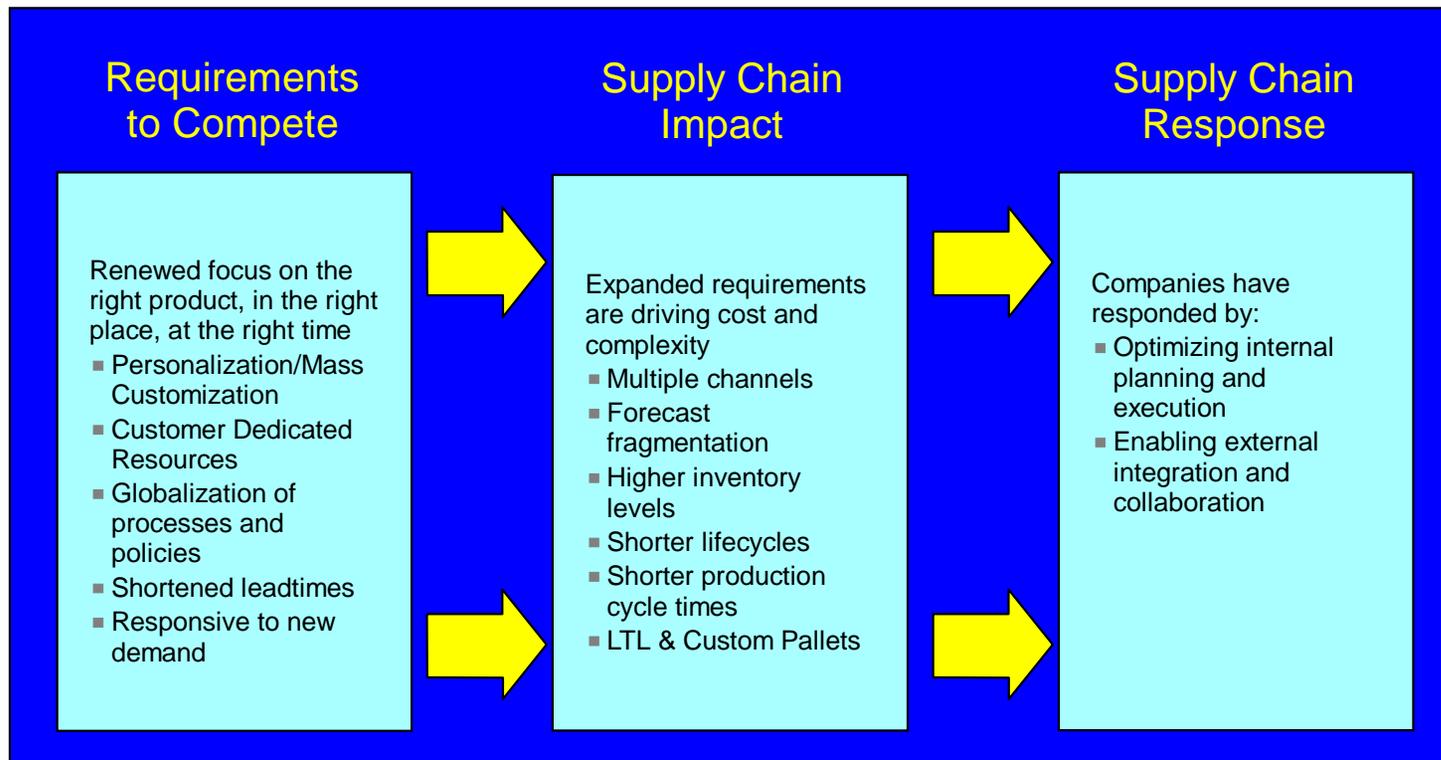
While wholesalers & distributors hold *\$307 Billion*

And retailers hold *\$373 Billion*

Totaling excess inventory of *\$1.1 Trillion*

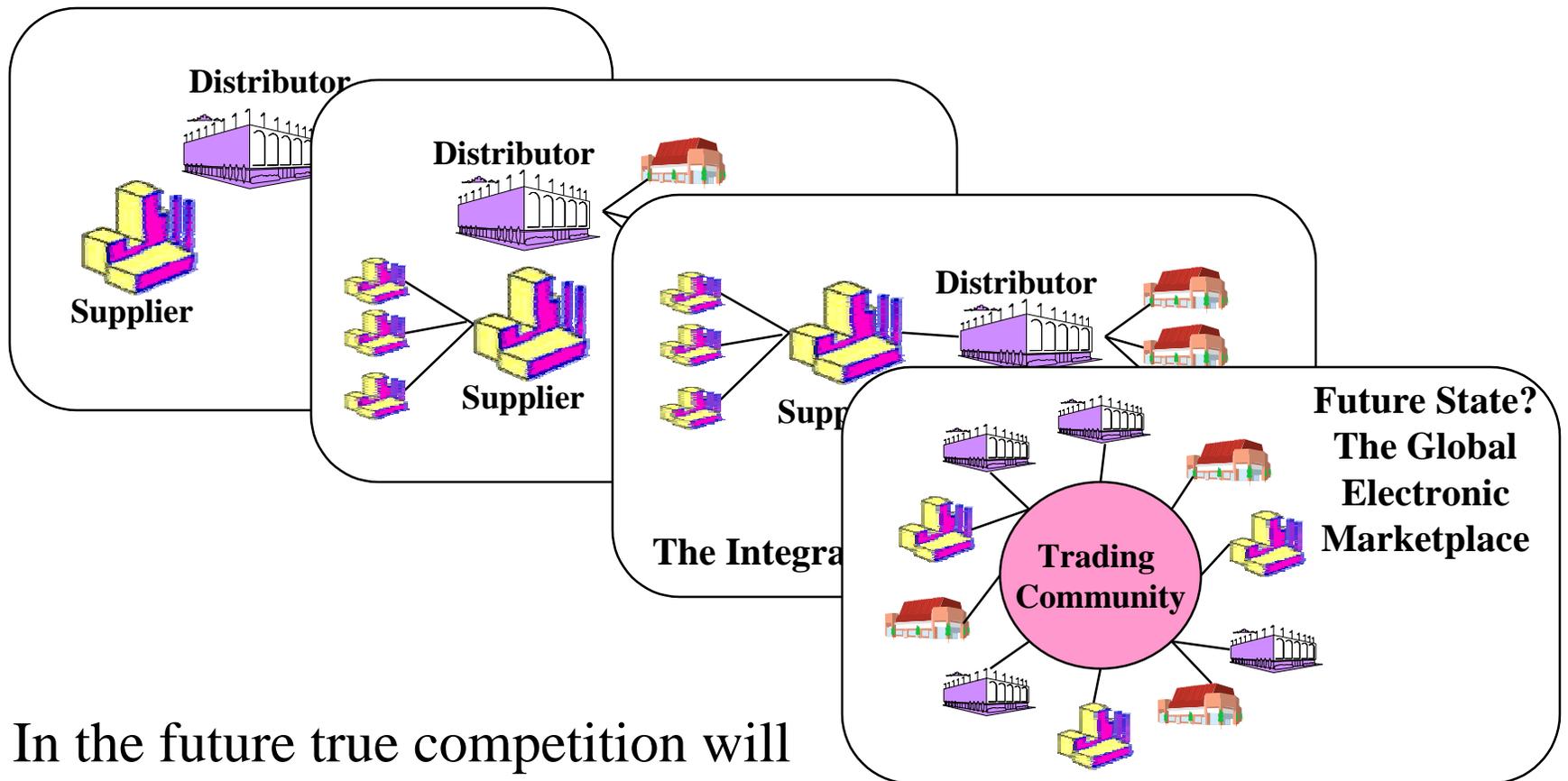
Or 34% of the \$3.2 Trillion of total sales in year 2000

This Fundamentally Impacts the Way in Which Industry Players Must Manage Their Supply Chain



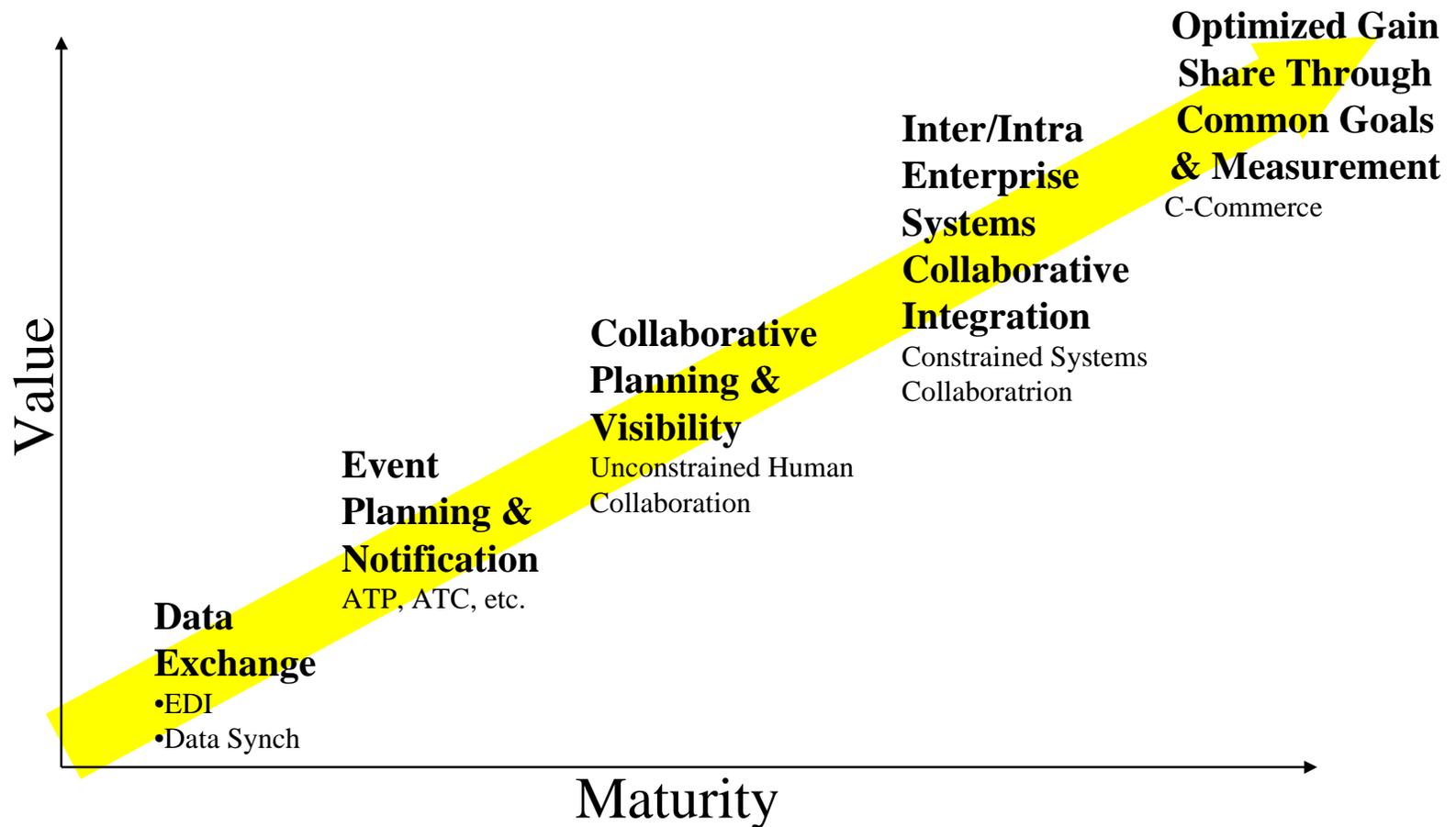
Supply Chains Are Evolving To A Virtual Structure

Enabling Strategic, Tactical and Execution Collaboration



In the future true competition will not be Company vs. Company but Supply Chain vs. Supply Chain

Value is Realized As the Collaborative Initiative Matures





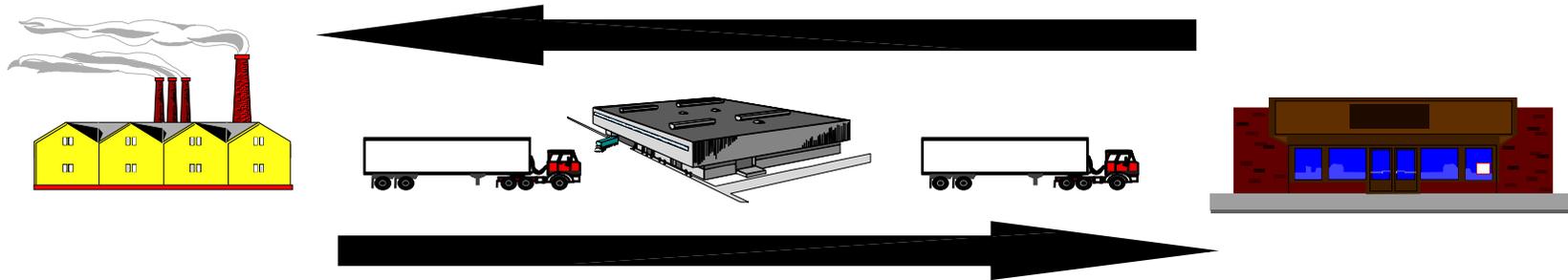
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A Case Study: Collaboration in Retail

The Retail and CPG Vertical Provides A Case Study

Collaborative Planning, Forecasting and Replenishment

To improve the partnership
between trading partners
through collaborative processes
and shared information.



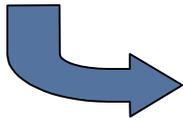
Retail / CPG Supply Chain

**Manufacturer and Retailer
Have Common Goals:**

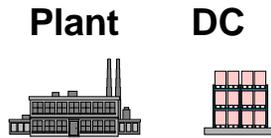
- Reduced supply chain inventory
- Increased service levels
- Increased sales
- Lower supply chain costs
- Fewer returns

...

**And different Supply
Chain information:**



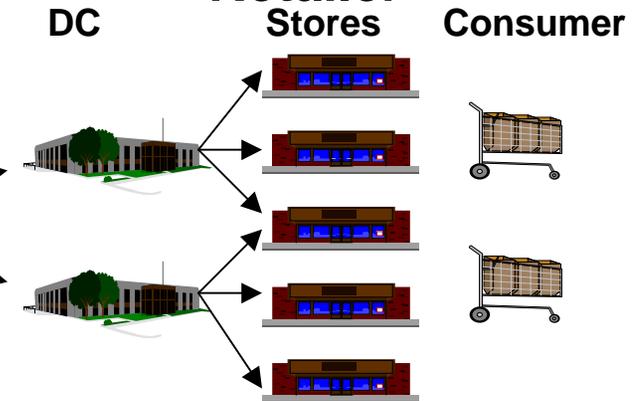
----Manufacturer----



Manufacturer Information

- Manufacturer's promotions
- Product introductions
- Supply constraints
- Competitive retailer promotions
- Product seasonal profiles

-----Retailer-----



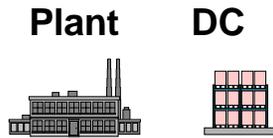
Retailer Information

- Store promotions
- Store openings and closings
- Changing distribution profiles
- Competitive manufacturer activity
- Inventory status and policies

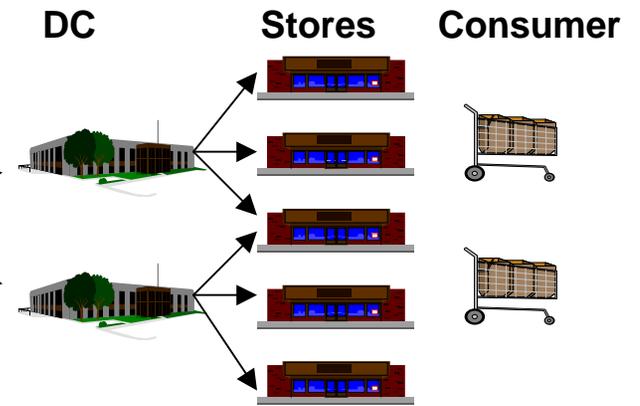
Current Systems, Organizational Culture and Processes inhibit sharing of this information

Retail / CPG Supply Chain

----Manufacturer----



-----Retailer-----



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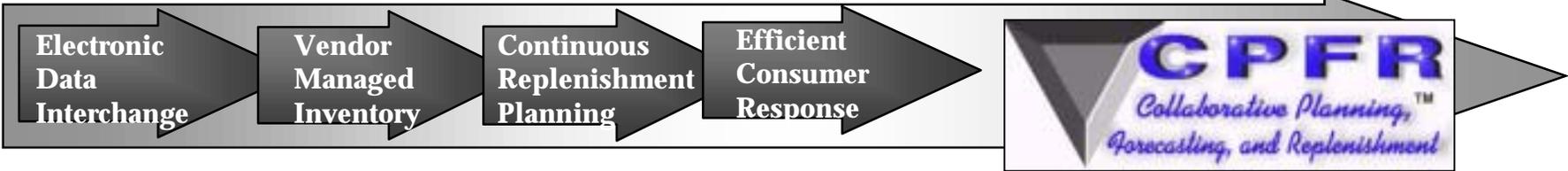
The CPFR process and technology drive:

- ***Improved forecast accuracy***
- ***Improved trading partner relationship***
- ***Process for defining and tracking supply chain metrics***

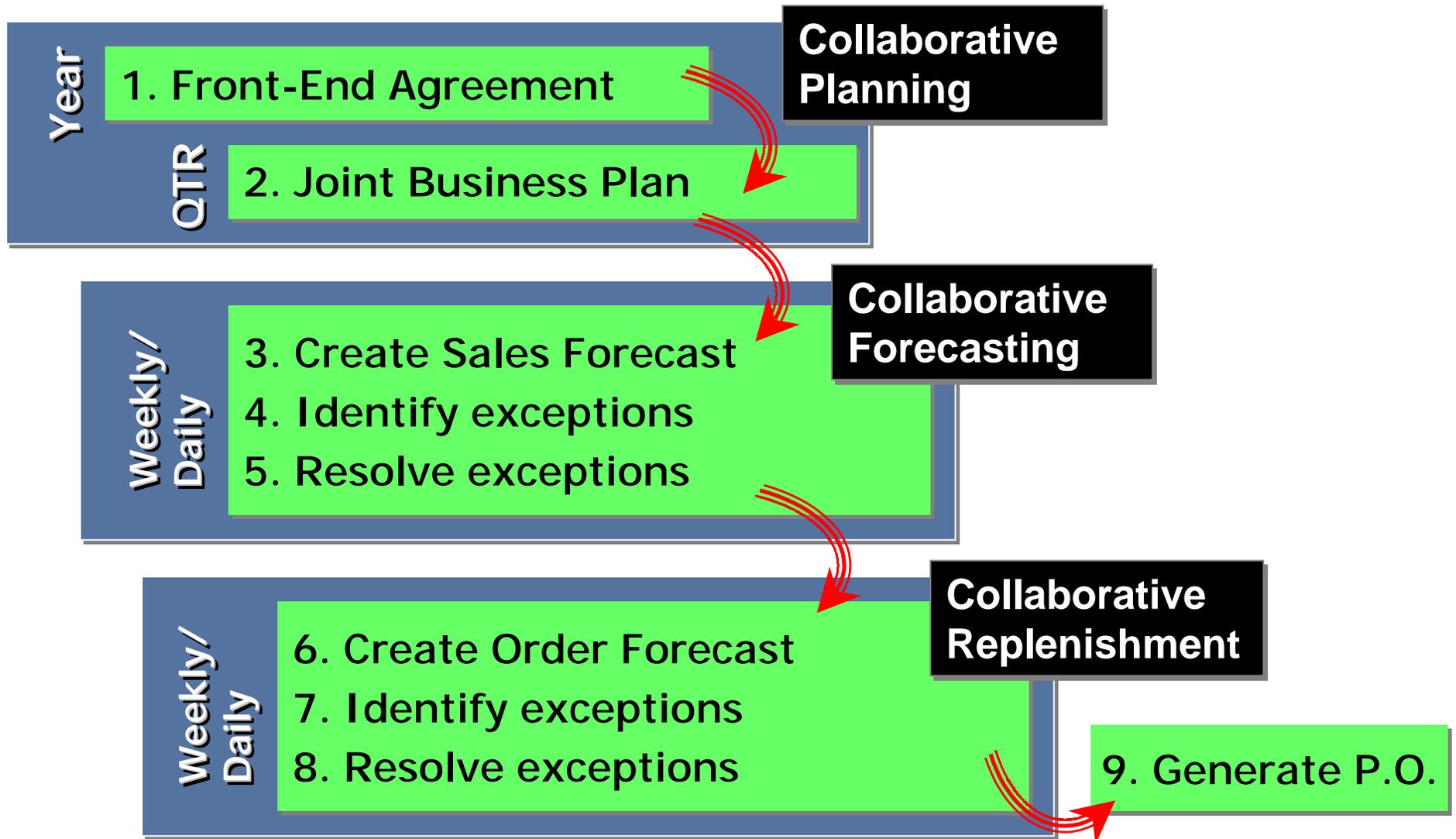
CPFR Builds on Previous Initiatives

Collaborative Planning, Forecasting and Replenishment (CPFR) is not a new idea - it is an extension of previous collaboration initiatives.

Collaboration Continuum



The Model Can Be Broken Into Simple Steps





CPFR Historical Perspective

1995-1996

- ◆ “CFAR” - initial pilot project between Wal*Mart and Warner-Lambert
- ◆ “CPFAR” - on ECR agenda

1997

- ◆ CPFR continues to be on ECR radar screen
- ◆ VICS CPFR subcommittee formed to set CPFR guidelines

1998

- ◆ VICS Guidelines for CPFR first published
- ◆ Wegman’s Foods & Nabisco pilot
- ◆ Wal*Mart & Sara Lee Pilot

1999

- ◆ Leading companies pilot CPFR
- ◆ Kmart pilots CPFR
- ◆ Roadmap to CPFR published, with Pilot Results

2000

- ◆ Exchanges embrace CPFR
- ◆ Competitive products announced
- ◆ Companies continue to test the ability to advance CPFR

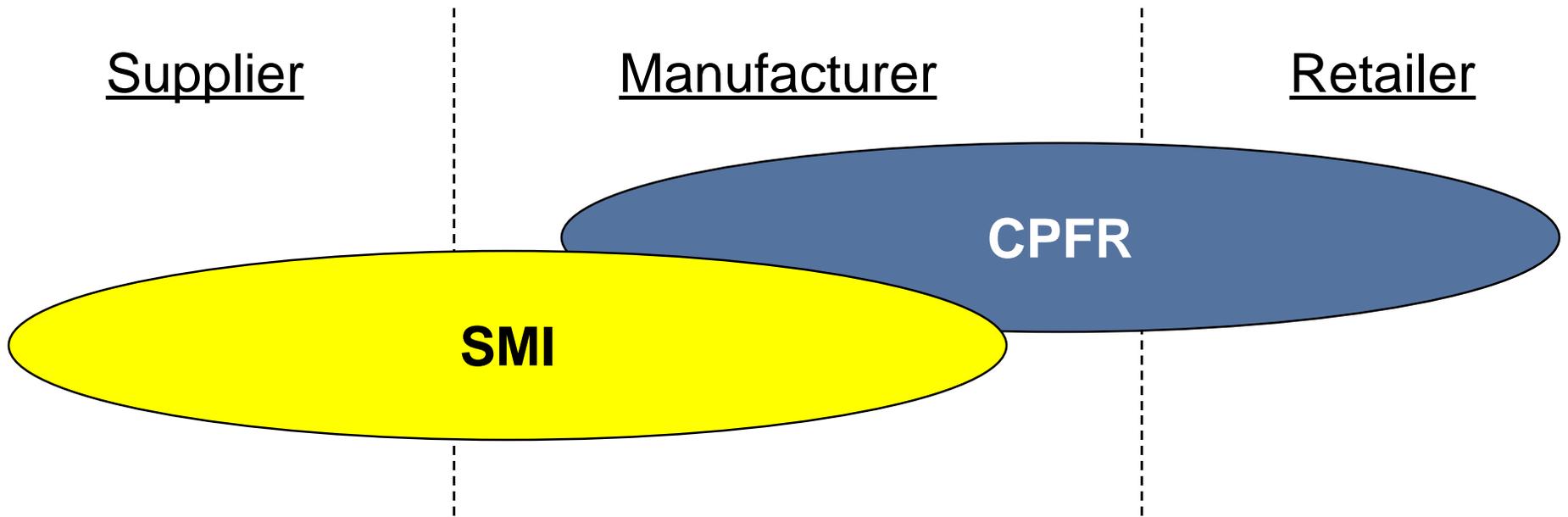


CPFR: Aligning Supply and Demand

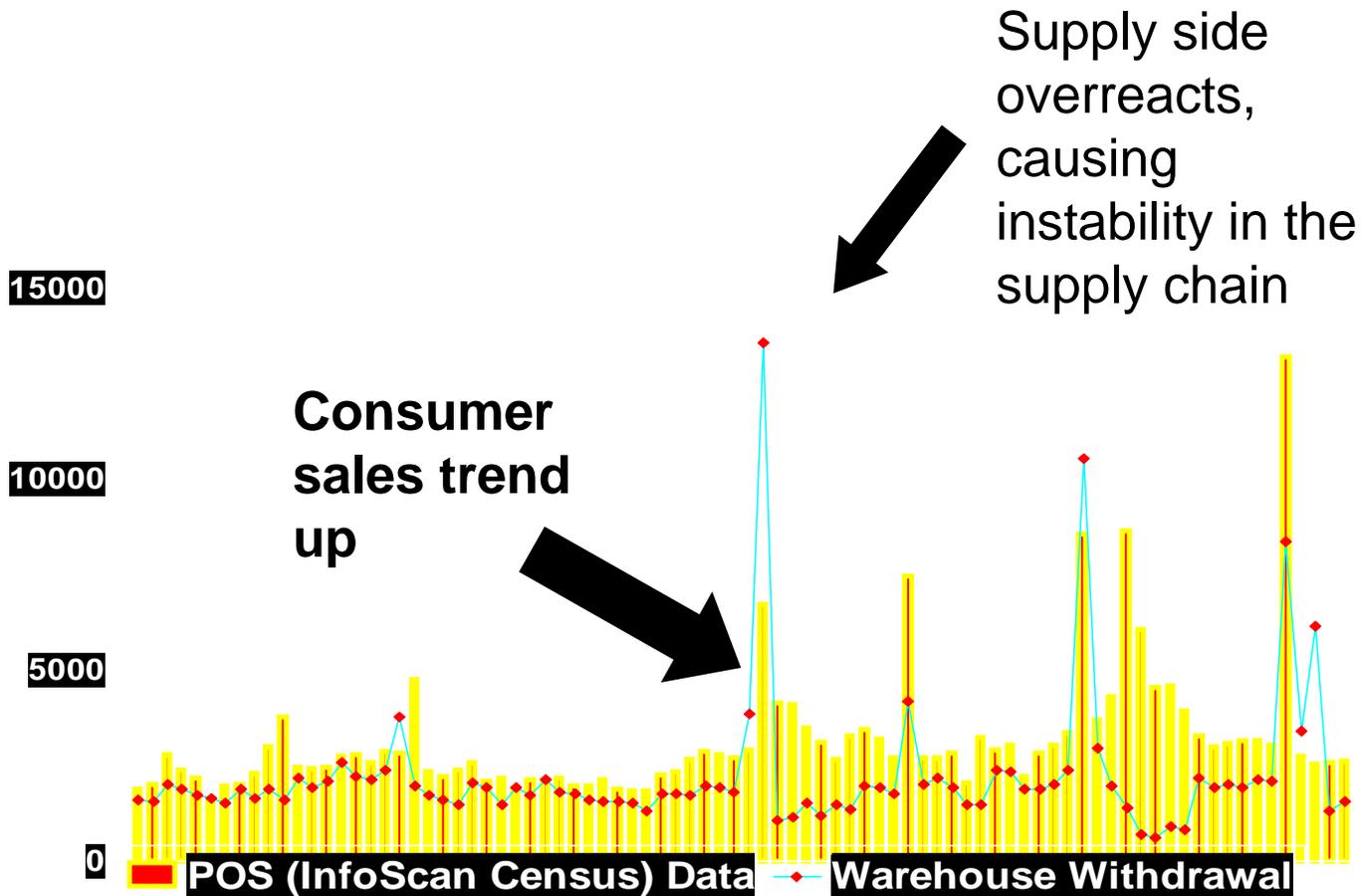
*CPFR is a **collaborative** approach to increasing product availability while reducing inventory across the supply chain.*

- Internal communication and collaboration is a key first step
- Trading partners share forecasts and other supply chain data over the Internet
- CPFR technology identifies exception conditions when:
 - Plans do not match
 - Forecast accuracy is out of tolerance
 - Overstock and under-stock conditions exist
- Partners resolve exceptions through negotiation and plan revisions

Industry Leaders Are Even Now Expanding the Concept: Inter-enterprise supply chain collaboration



Taking on the “Bullwhip” effect





CPFR Produces Both Tangible and Intangible Benefits

- Tangible: Driven by improved forecast accuracy
 - Inventory Reductions along the entire supply chain
 - Sales Increase via improved in stock position
 - Reduced Warehousing, Transportation, and Logistics Costs
 - Improved Gross Margin
 - Reduced returns & chargebacks
- Intangible:
 - Improved trading partner relations
 - Better internal communication/planning
 - Enabling collaborative commerce



CPFR Value

Proven Benefits Across The Enterprise

Typical Collaboration Benefits

Retailer Benefits	Typical Improvement
Better Store Shelf Stock Rates	2% to 8%
Lower Inventory Levels	10% to 40%
Higher Sales	5% to 20%
Lower Logistics Costs	3% to 4%
Manufacturer Benefits	Typical Improvement
Lower Inventory Levels	10% to 40%
Faster Replenishment Cycles	12% to 30%
Higher Sales	2% to 10%
Better Customer Service	5% to 10%

Source: AMR Research, 2001

Value Assessment Methodology

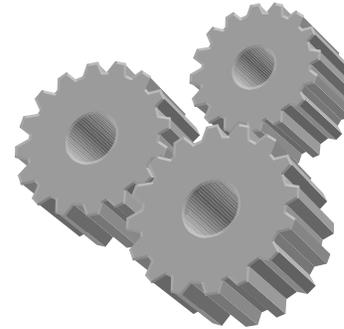
Based on Live Implementation Experience

Start with Company
Financial Statement

Acme
Co.
10-K

Current
Growth
Rate

Qtrly
Pro-
Forma



CPFR
Adoption
Rate

End with customized
Value proposition

CPFR
Value
Prop

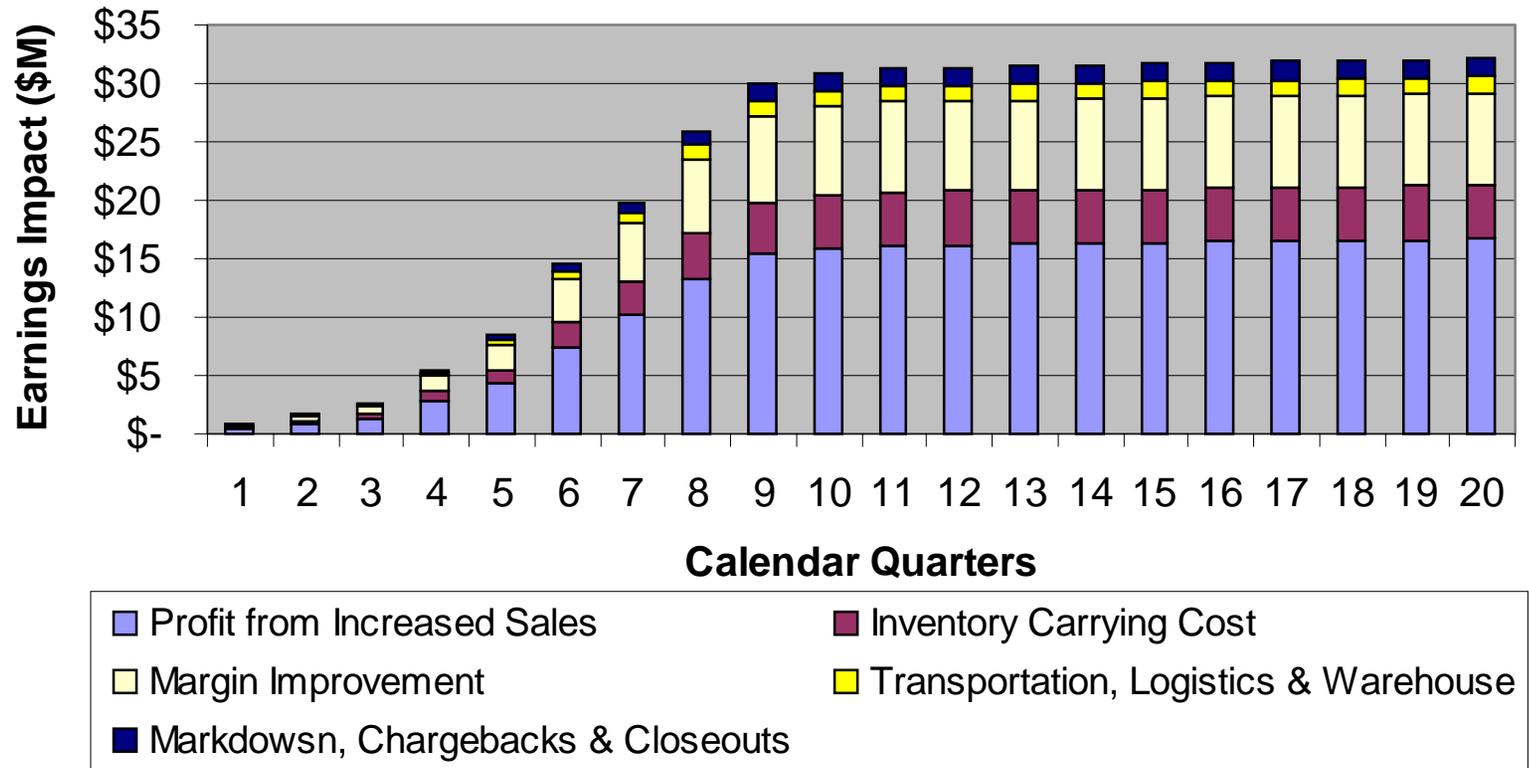
Syncra
CPFR
Effects

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CPFR



Projected Value Over Time

Based on Live Implementation Experience





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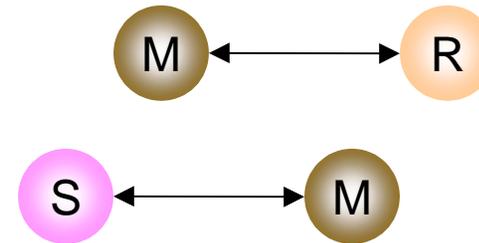
A Simple Model That Offers Flexibility



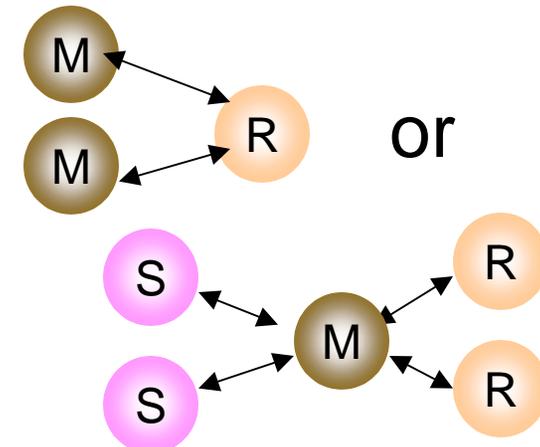
The Virtual Supply Chain

CPFR[®] Deployment Options

- Option 1: One-to-one



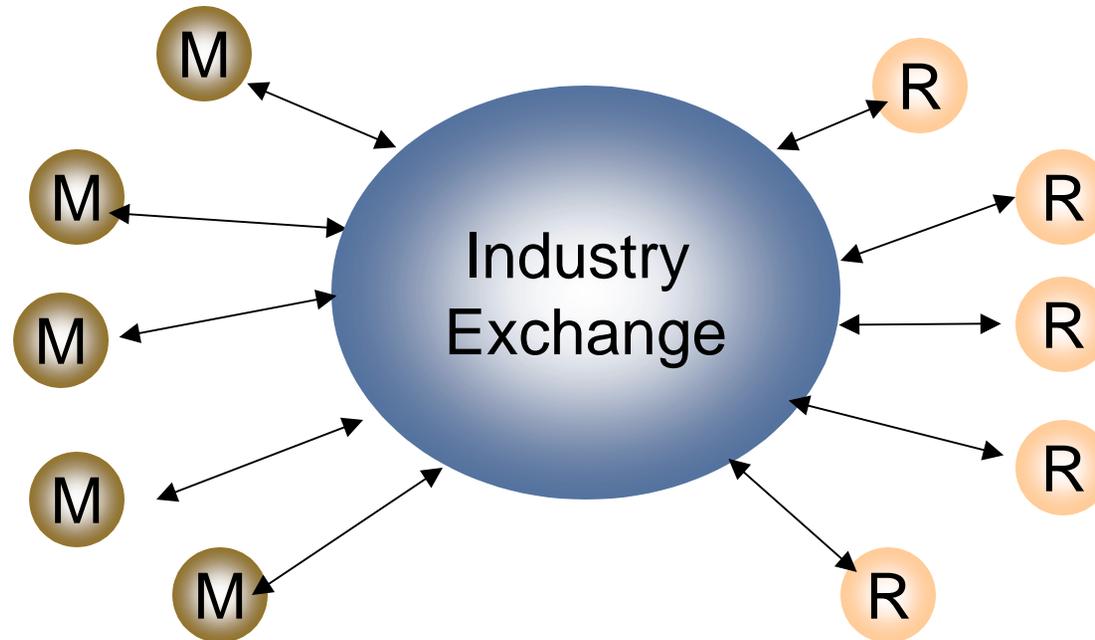
- Option 2: Private Network(s)



The Virtual Supply Chain

CPFR[®] Deployment Options

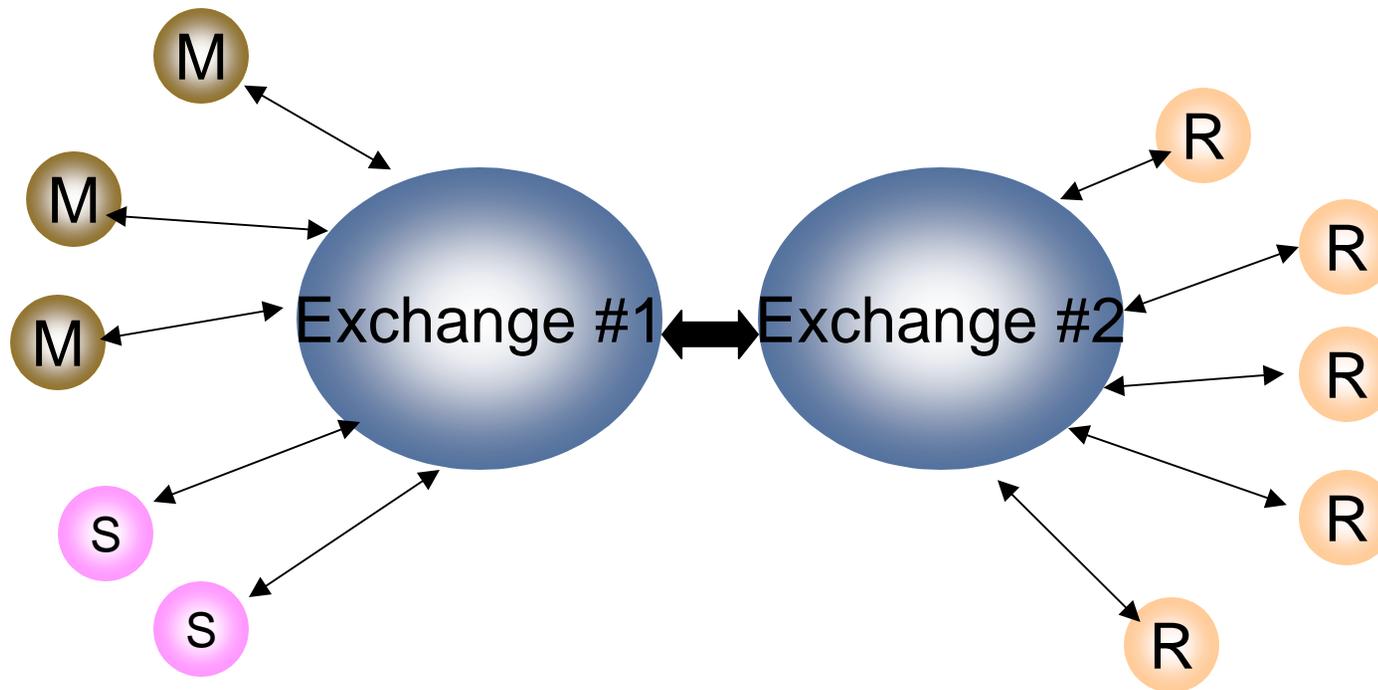
Option 3: Exchange-based CPFR



The Virtual Supply Chain

CPFR® Deployment Options

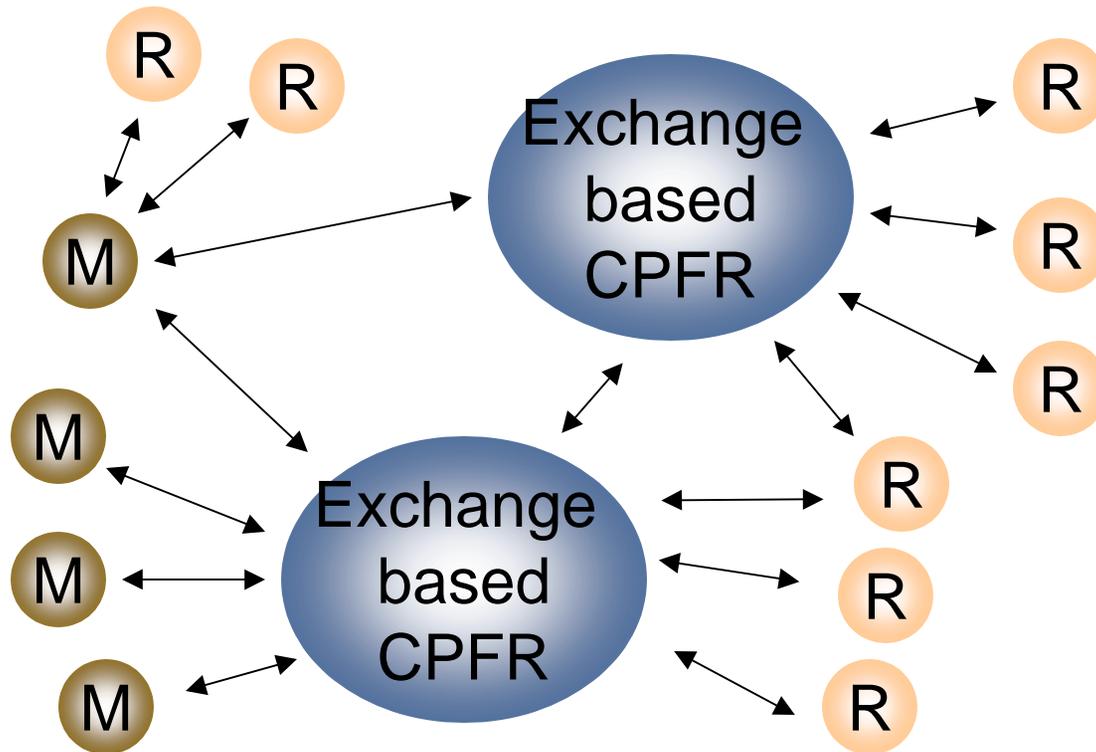
Vision For Multi-Exchange-based CPFR



The Virtual Supply Chain

Most Will Connect In Many Ways

The End Game: Keep Your Options Open





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Lessons Learned and What to Think About



Lessons Learned

Reports From the Front Lines

- Senior level commitment is important ingredient to success
- First foray ...SKU selection important
- Better communication within organizations and across organizations
- Better understanding of who does what best
- Choosing an initial trading partner who is already moving will move you up the curve more quickly

It works! Increased Sales...Reduced out of stocks...Product availability...Promotion promise actualized...Smart deployment of resources



What to Think About *Situation Summary*

- Industry pilots are complete
- Value has been proven again and again
- Standards are in place
- Technology solutions are available & Deployable
- Services are live
- It is in our collective interest to succeed

Yet...

- eMarket explosion has brought hesitation
- Industry has stalemated on who owns the process
- There is still debate on what needs to happen before CPFR can be deployed

We Are Leaving Money on the Table Every Day



What to Think About

How Do We Seize Opportunity?

The Name of Game Has Not Changed

- It's not about what exchange you have invested in
- It's not about technology
- It is about business process and tangible value
- It is about competitive advantage

Don't Wait Any Longer, Move Now

- Start tactically, do not overcomplicate – K.I.S.S.
- Let manufacturer trading partners bear the burden
- Develop eMarketplace strategy in parallel
- You can adapt as environment and strategy unfold

When put in charge, take charge

Right now industry leading retailers and manufacturers are stealthily driving to seize competitive advantage.



Close & Questions

“Retailers can pilot CPFR processes without making large up-front financial investments...If you are not already piloting or implementing CPFR, start today.”

AMR Research, Report on Retail E-Business, April 2001