



INSIGHTS

From Manufacturing to Market: Improving Retail Sales through CPFR

By Frank Ritter

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Executive Summary

Many executives in manufacturing, retail, and consumer products companies have diligently worked to develop better business processes and increase operating profits, yet problems with forecast accuracy, order fill rates, extended lead times, and exorbitant inventory levels prevail.

Although there have been many process improvements utilizing the latest technological trends, few processes have offered the business benefit while being almost entirely technology-platform independent as Collaborative Planning, Forecasting, and Replenishment (CPFR). Wal-Mart and its suppliers pioneered CPFR during the mid-1990s. Often the de facto standard for operating efficiencies, Wal-Mart has achieved operating performance levels with CPFR suppliers, which many companies attempt to emulate.

In the future, successful companies will adopt CPFR as a best practice to help them realize value from collaborative relationships.

Best Practices

The value proposition of CPFR is unquestionably compelling. While results vary from company to company

and implementation to implementation, some of the most notable benefits include:

- **Increased sales** through improved in-stock and shared insights to demand.
- **Reduced operating costs** through lower product returns, reduced expedition costs, and optimized production cycles.
- **Reduced inventory** with less “just-in-case” inventory and build-to-order process model vs. build-to-stock.
- **Improved relations** through joint problem solving with the supplier and joint business planning.

While CPFR can add considerable business value, there are certain actions that companies must adopt in order to strategically leverage the benefits of CPFR:

- Develop a strategic position for CPFR.
- Develop and drive internally the business cases that support the company’s overall position.
- Clearly articulate the vision of the collaboration strategy.
- Understand that CPFR is a cross-functional, cross-departmental initiative involving Sales,

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Customer Service, IT, Operations, Marketing, Supply Chain/Logistics, and Executive Management.

- Ensure that executive and senior management clearly understand what collaboration means and how to best achieve effective collaboration.
- Develop a change management plan to address cultural and organizational issues which arise.
- Ensure that trading partners are able to meet expected capacity, and that they are ready for CPFR.
- Understand that technology is only the enabler of collaboration; the process is the primary driver.
- Understand that the process needs to be adjusted as it will require iterations and cycles to achieve desired optimization.

What Is CPFR?

CPFR is primarily a process driven initiative with an integrated technological focus. In other words, CPFR implementations focus on collaboration processes with technology as an enabler. The push for CPFR represents a return to the basics: gaining accuracy through a jointly owned demand forecast, visibility throughout the total value chain, linking supporting processes, and optimizing internal and external decisions.

CPFR differs from its predecessors in that its goal is to seamlessly link the consumer products industry from manufacturer to consumer.

Some of CPFR's predecessors include electronic data interchange (EDI), vendor managed inventory (VMI), and efficient consumer response (ECR). However, in many ways CPFR differs from its predecessors in that its goal is to seamlessly link the consumer products industry from manufacturer to consumer, therefore allowing the manufacturers and retailers/distributors to see the entire supply chain from one end to the other.

CPFR calls for complete collaboration and information sharing for specific products or product lines between the manufacturers and the retailers/distributors, including the merchandising process, item/category selection, and seasonal and promotional planning. Combined with real-time updates based on normal activity, CPFR partners will be able to engage in total supply chain visibility and forecasting. And because CPFR uses a set of process and technological models that are open yet allow secure communications, flexibility is possible across the industry, extensible to all supply chain processes, that supports a broad set of requirements.

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When looking at overall supply chain costs, it is apparent that inventory accumulation across the entire supply chain translates into increased costs for all members of the supply chain. This accumulation occurs for a number of reasons, including companies creating and holding inventory to protect themselves against varying supply and demand, and thus uncertainty. This uncertainty, however, can be eliminated through careful and diligent collaboration.

When collaborating with partners using the CPFR process, the follow actions items must be put into practice:

- Develop front-end agreement. Partners establish the guidelines for the collaborative relationship.
- Create joint business plan. Business plan and item co-managed.
- Create sales forecast. Collaborative process of forecast development.
- Identify exceptions for sales forecast. Identify list of items outside the agreed-upon sales forecast.
- Resolve/collaborate on exception items. Resolve collaboratively all exception items.
- Create order forecast. Collaborative process of developing the replenishment schedule.
- Identify exception for order forecast. Identify list of items outside the agreed-upon order forecast.
- Resolve/collaborate on exception items. Resolve collaboratively all exception items.
- Order generation. Convert order forecast to a committed order.

Simple Technology—Revolutionary Approach

As mentioned, some of the early adopters of CPFR employed a variety of technologies when applying the basic aforementioned steps. Although the technology has evolved over time, they truly pioneered the CPFR process through exceptional results (listed below), which exemplify the benefits of strategically adopting CPFR:

PARTNERS	DESCRIPTION	RESULTS
Kimberly Clark and Kmart	<ul style="list-style-type: none"> • 2100 stores, 14 DCs, and 15 SKUs • Utilized Kmart-developed Internet site 	<ul style="list-style-type: none"> • Store in-stock levels improved • Reduced overall inventory required • Improved focus on front-end agreements

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PARTNERS	DESCRIPTION	RESULTS
Nabisco and Wegmans	<ul style="list-style-type: none"> • First pilot managed 22 Planters SKUs • Second pilot managed 20 Milk-Bone SKUs • Used spreadsheets and email, then migrated to Manugistics Networks software. 	<ul style="list-style-type: none"> • Nut category sales grew 16.3% • Private-label nut sales grew 15.7% • Planters Nuts sales grew 53.9% • Days of inventory on-hand decreased by 2.5, or 18% • Pet snack sales grew 7% • Private-label snack sales grew 31% • Milk-bone sales grew 8%
Wal-Mart and Sara Lee Branded Apparel	<ul style="list-style-type: none"> • 23 branded underwear items in 2400 stores • Initially collaborated with spreadsheets 	<ul style="list-style-type: none"> • Sales up 45%, inventory rose ONLY 12% to support sales • Market share up 10%, retail turns up 30% • Retail weeks-on-hand down 23%, gross margin return on inventory investment up 49% • In-stock up 2.7%
Wal-Mart and Warner Lambert	<ul style="list-style-type: none"> • Several brands at a few stores 	<ul style="list-style-type: none"> • Increased sales • Streamlined organizational operations • Improved administration efficiencies • Reduced out-of-stocks and reduced overall inventory

Clarkston’s Unique CPFR Approach

We at Clarkston Consulting have a unique approach to CPFR, which can enable companies to achieve significant business value. Our approach focuses on understanding a company’s specific strategic drivers and requirements. We then work with our partners to translate those requirements to a CPFR solution. We work with our clients to identify and contact pilot participant, and help determine pilot product or product lines. We also assist with determining the CPFR process approach, identifying technology requirements, and developing communications and change management plans in conjunction with this approach. Lastly, we work to develop an implementation and rollout plan along with CPFR audits and enhancements.

When reviewing best practices around CPFR, companies often go through several phases to attain the ultimate benefits. A first phase is characterized by a focus on the value proposition, the technology issues, and the implication of future change. A second phase focuses on developing the pilot, including a business case for the change and an implementation plan. Finally, a third phase often in-

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volves implementing the pilot, evaluating the results, and further enhancing the implementation approach.

According to the Grocery Manufacturers of America (GMA) CPFR baseline study¹, typical benefits associated with CPFR include:

- Reduced inventory experienced by 60% of survey respondents (most in the 1 to 10% range).
- Improved service levels experienced by 70% of survey respondents (most in the 1 to 10% range).
- Increased sales experienced by 44% of survey respondents (most in the 1 to 5% range).
- Improved forecast accuracy experienced by 60% of survey respondents (most in the 5 to >10% range).

With all of the margin pressures of today's executives, CPFR is an area of interest to your competitors, and it should be an area of interest to you.

About the Author

Mr. Frank Ritter is Director of Clarkston's Integration Services Line.

Note

1. Manufacturing profile published late 2002, <http://www.gmabrands.com/industryaffairs/docs/cpfr.pdf>.

About Clarkston Consulting

Clarkston Consulting is a leading management and technology consulting firm that provides strategic business solutions for clients within the life sciences and consumer products industries worldwide. These market leaders turn to Clarkston to help them bridge the gap between strategy and execution to sustain a competitive advantage. Clarkston is a sought-after business partner because of its recognized industry thought-leadership and superior client relationships, as measured by The Conference Board's survey on client satisfaction. For more information, visit www.clarkstonconsulting.com/whitepapers.



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