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July 2006

CUSTOMER FOCUSED SUPPLY CHAIN STRATEGIES

Presented by:

Martin Bailey, Managing Director



INDUSTRIAL LOGISTIC SYSTEMS (Pty) Ltd



Industrial Logistic Systems (Pty) Ltd

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?



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THE REAL PROPERTY AND ADDRESS OF ADDRES

LETS ASSUME HAVING A GOOD SUPPLY CHAIN:

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



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



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



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CUSTOMER FOCUS

- Measuring REAL customer satisfaction
- Availability
- Range



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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



Every little helps

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So what did they do



Shobul Scorecum

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HOW DID THEY FIX THIS?







Shobul Seoraeuri

Less Touches





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Less Touches





Least Touches





Least touches



CHARACTER IN COLOR

Least Touches







PRELIMINARY STATEMENT OF RESULTS 2005

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.



Glubul Scoreenvil

A few local examples







ann a an tha





Pick into rolltainer & move to dispatch





If you use rolltainers you don't need cages





Traditional unload method





Tail lifts used throughout the world for many industries





Once in the trade, use can be made of tail lifts to unload rolltainers



Lots Touches





Glubul Scorecum

Lots People





Nobul Icorecum

PERCEPTIONS OF SERVICE

CAREFUL – DIFFERENT PEOPLE HAVE DIFFERENT PERCEPTIONS OF SERVICE:

EXAMPLE:

SA SURVEY – RETAIL INDUSTRY

Want to be treated with respect
 Want availability
 Price



PERCEIVED SERVICE LEVEL

Examples – South Africa:

Organisation	Their measurement of service	Customers measurement of service level
FMCG Supplier in RSA	92%	68%

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:



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

More. Gase: Edstelle Pro Ltd



Lowest cost is not necessarily the Best



We think we have the lowest cost supply chain 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......













IndustrilMOLOGISGESSGENS (DO) 08

AVAILABILITY IN SA?

Often Poor

- No understanding of <u>total supply chain</u>
- Manufacturers are driven by costs
- Manufacturers are driven by manufacturing
- Lack of service level agreements
 - Internal
 - External



REAL VALUE CUSTOMER SERVICE IS ALL ABOUT:

TRADITIONAL WISDOM	CUSTOMER FOCUSED WISDOM
Quicker delivery	 Speed and reliability from demand to customer
Lowest cost	Appropriate cost
 High service levels 	High availability
 Focus on customer 	Focus on consumer
Push systems	Pull system
 Continual special offers 	Every day low prices
Internal needs come first	Customer needs come first

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 wants
- 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



THE END

<u>Real</u> Customer Focus begins at the top. It can only happen with visible, passionate, relentless, commitment by all





A HAPPY CUSTOMER WILL COME BACK AND BUY MORE.

Nobul Teorgenzi