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Kimberly Clark's Mark Jamison on "The Supply Chain Network of the Future"

Full Transcript of our Interview; From Idea to Execution

SCDigest Editorial Staff

SCDigest Editor Dan Gilmore recently sat down with **Mark Jamison**, Vice President of North America Customer Supply Chain for Kimberly Clark Corp., to discuss the company's "Supply Chain Network of the Future" program. Last week, Gilmore offered his summary review and comments of that interview and program. (See **Kimberly Clark Rethinks its Supply Chain**.) Here is the full transcript of the interview.

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Mark Jamison, Kimberly Clark

Gilmore: What was the genesis of the Supply Chain Network of the Future project at Kimberly Clark?

Jamison: Well what really was the catalyst was about 4 to 5 years ago we were refreshing our supply chain strategy, and as part of that refreshment we wanted to evaluate strategies for how we wanted to go to market.

Through that process we decided that we would spend some time with our customers and retail partners understanding what their supply chain objectives and goals were, and then match the capability of our physical distribution network against those goals.

Our retail partners told us three things – help us improve customer service and reduce out-of-stocks, help us take inventory out, and help us reduce cycle time - three of the key priorities they shared with us.

And as we looked at our physical distribution network four years ago or so and compared it to those goals that our retail partners had, and as we looked to the future we knew that we had to change if we were more effectively going to meet those objectives. It would be hard to make much additional progress with our current network.

The second key thing that drove us was we felt there was an opportunity to become more cost effective in our supply chain. So, first and foremost we wanted to become more flexible and responsive with our supply chain design, and secondly we wanted to realize significant cost savings.

Gilmore: In addition to better meeting customer needs, were there some obvious pain points in the existing network?

Jamison: Yes, we were feeling some pain from the perspective that as our businesses had grown, our strategy had been primarily to ship direct from producing plants warehouses. And as we invested our capital over time we primarily invested in the plants and machines, we did not invest much in additional warehouse space for those plants and

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mills.

So as inventory required to support business needs grew, we ran out of space in those plant DCs and we went into overflow warehouses. So we were feeling some pain from a complexity standpoint. We felt our network had become more complex than it needed to be and that we needed to right size it and change how we went to market.

Gilmore: How did you create a "driving force" for the project?

Jamison: Like I said, we spent time talking with customers and we redefined our strategy. I think the other thing I should share with you is that the cornerstone of that strategy is to evolve to a demand driven supply chain. That is a real change for us.

We want to move to an environment where we let inventory get pulled through the supply chain rather than be pushed. We wanted to redesign our supply chain from the shelf back, while our supply chain had really been designed from our manufacturing assets forward. We wanted to integrate key business processes and systems so that we were highly integrated both with our partners and suppliers and could create end-to-end visibility within the supply chain.

Gilmore: How did the effort unfold?

Jamison: The first major step was redefining our strategy. Once we realized that we really wanted to change our physical distribution network and how we went to market, the next step was to get into some rather intense modeling. That was a real key step for us.

We evaluated a range of opportunities, we evaluated our current capabilities to meet customer requirements, those goals they talked about, we evaluated the cost impact, and we looked at the feasibility of a number of options.

That was probably a 6 to 9-month effort, doing the modeling right and figuring out exactly where we wanted to end up.

Gilmore: That analysis is a big effort. Did you use outside help?

Jamison: Well actually we have a fairly robust supply chain analysis team within Kimberly Clark. We used our own models and we basically committed that team almost full time to this project for 9 months.

I should add the one other thing we did do as we went through the modeling is that we formed an informal board of directors. We asked experts in the industry to review our plans and modeling efforts as we went through this – we met 3 or 4 times with them and asked them to critique our thinking, our modeling work, our ideas – and they gave us pretty good insight that helped us find some of our plans.

We had people from academia, we had people from 3rd party logistics suppliers, etc., as part of that advisory team.

Gilmore: How did the demand-driven part of the strategy get going?

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Jamison: The first key for us was to get to the level of integration so we had better visibility of the supply chain. That is really critical for a demand driven environment.

The reason that is important is that variability is a virus and many of us are still impacted by the effect of supply chain variability and what it can do to service and impacts. We are driven by a forecast and we realize significant variability from that forecast, which causes us to react.

Our goal is ultimately get to a state where we have visibility almost at that shelf and through that ability to have real time market data, demand data, use that to really drive our replenishment process. Then, you can really minimize the impact of that demand variability.

Now you will always need a forecast for planning and all of that, but becoming demand driven means you have visibility at the retail shelf, and our vision ultimately is we want to use POS to drive our replenishment production planning process.

Gilmore: We've had POS data for awhile. Why is it so hard to actually use it to drive the supply chain?

Jamison: It's an evolution. First of all, in the industry POS was not shared by everyone up and down the supply chain until fairly recently. The second thing is what do you do with that data once you get it?

At first, it's like drinking water from a fire hose, but there is technology right now that is out there that really can take that POS data and do all the right things so you aren't drinking water from a fire hose. You can use it to really drive and prove results in your supply chain, and that is the exciting thing.

Gilmore: How did you sell the program to executive management?

Jamison: After the modeling, we obviously had to go through the process of selling this to our senior leadership team.

My group was the driver of the project. We took our business case to our business leaders and all the way up to our CEO. We did not do this network redesign in a piecemeal fashion. We went to our senior leadership with an end state plan and said it is going to take us 18 to 36 months to get there, but here is the end state we want, and here is our time line to get there, etc., so that they were able to buy into the total plan.

Gilmore: This obviously was more than a supply chain project – it has a big impact on sales, marketing, customer service. How did you involve those groups?

Jamison: That was a key part of our strategy. We had our customer development organization as part of our core team as we developed these concepts. When we went forward to our senior leadership they were actively helping us sell our plan.

Gilmore: Were there any interesting "Ah Ha" moments as the project unfolded – unexpected in-

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sights?

Jamison: I think one of the "Ah Has" for us was that in our old network we really operated in an environment of dynamics. We would take an order and reassign it based upon inventory and to the low cost, high service location. That had been a paradigm that had worked very well for us for a number of years to optimize service and cost.

But as our business grew and became more complex in the number of SKUs, the number of new products, and the number of new manufacturing locations, that dynamic sourcing model became very challenging to optimize service and cost. But that was a paradigm that was very difficult for people to break away from.

Where we have ended up is with a fixed sourcing network. People clung for awhile to the old paradigm of believing that the dynamic sourcing model was the low cost model no matter what. What we have found instead is that the dynamic sourcing model actually created a tremendous amount of variability, and variability is the virus of the supply chain. We didn't really realize until we went to fixed sourcing how much savings it is driving because we have taken a lot of that variability and complexity out.

Gilmore: Just to be clear, are you talking about dynamic versus static sourcing at the DC level?

Jamison: That was part of it. The other part of dynamic sourcing was dynamic production planning. We would frequently change where we would source product from an individual plant perspective when we were planning inventory builds.

Gilmore: So the new DCs are of the mixing center type – will each carry the full line of Kimberly Clark products?

Jamison: Yes, that is what we did. Our end

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state is that we will end up with nine mega distribution centers located through out North America.

Here is the benefit we are seeing: One, they are located closer to our customers – the major markets where our producing plants were located it isn't necessarily where our consumers and customers were. So we are closer to customers, and that enables us to reduce order cycle time. In our old model, because we did dynamic sourcing and we were trying to ship direct from plant, customers had to order in a family pair or personal pair grouping. We did provide full combinability.

For the new model with the mixing center concept, they can get all of our SKUs in one truck, which is helping them reduce inventory, it is helping them improve in-stock levels at retail, and we have become much more responsive to market place demand.

It is also helping us because our network is much simpler – before we had a producing plant with multiple overflow warehouses – we had to do a lot of cross shipping to get the right things for products. Now we are going to one location and it is helping us to take transportation costs down.

The other thing with this model is it is much more

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friendly from a rate perspective. We are able to use rail to replenish the mixing centers, which has been a very significant cost saving for us. So moving to the regional DC concept, the mixing center concept, has really played out to improve service and reduce cost for us.

Gilmore: That looks especially smart now with the way fuel costs have soared.

Jamison: Absolutely. We had projected the cost of fuel to increase, not at the rates obviously it has, but the fact that fuel has gone up has made the decisions we made even more cost effective.

Gilmore: Where does the project stand now?

Jamison: Well we have eight of regional DCs in place, the 9th will go into place actually in 2009, and that is in the Pacific Northwest, and that will be our last location. We have an interim facility in place up there that is meeting our needs for the moment.

That is phase 1. Now the second phase is another exciting phase for us. That is that we are going to take our co-pack facilities, we have had 22 3rd party co-pack suppliers, who take our base product and then co-pack it into display units, end of aisle display units, and mass merchandising units.

We are a consumer products company- our products are highly promoted, and to support our promotions we often to special packaging, which we do not do in our plants and mills. And those 22 co-packers are not strategically located and they require an extra movement out and an extra movement back.

We have designed our regional distribution centers with enough space so that we are going to consolidate the co-packers and bring them inside the DCs. So from a transportation perspective we are not going to have that extra leg, in fact we are going to save money because the length of haul is shorter from a retail partner perspective and again their goal is improving in-stock at retail and inventory, our cycle time is going to be significantly reduced because we've got that other leg right there where the product is, we can much better market demand if there is fluctuation there.

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We are just starting that, it is going to be an 18 month project. By the end of 2009 we hope to have all of that done as well.

Gilmore: How large are these new DCs?

Jamison: They range in size from 600,000 square feet to 1.8 million square feet. That's a big one, it's in Atlanta.

Gilmore: Are you using much automation in these

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new facilities?

Jamison: Conventional warehousing. We use the RedPraire WMS, which is a key part of our strategy. You know interestingly, we used to have five significant AS/RS facilities, and we have torn those down. We have found that for our types of products, we can actually operate a conventional at a lower cost than the AS/RS.

Gilmore: That's versus how many DCs in the old network?

Jamison: We started with about 70 facilities, and our goal ultimately is to get that in the range of a total of about 30, to about cut that in half. And it's a journey. We haven't done that all yet, but that's our goal.

Gilmore: What can you share in terms of benefits?

Jamison: We haven't publicly posted the numbers, but the savings are very significant.

We have shared some numbers with regards to transportation and sustainability. We don't have the 2008 numbers yet, but here are some hard facts for you. We reduced our customer miles by 2.8 million 2007 over 2006 and that was before the network was fully implemented. We have saved 2.4 million gallons of fuel because we increased efficiency in our network, so that's some pretty significant numbers there.