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Best Practices of e-Sourcing

Wal-Mart is Changing Its RFID Tune, Launching a New Set of Pilots

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October 16, 2007

Are Distribution Center and Material Handling System Audits a Good Value?

Insights Can Help Drive Improvement, if Structured Right; SCDigest's Guidelines

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- Using Incentives to Drive Forecast Collaboration
- Price Fixing Turmoil Continues, as Officials Raid Offices of Kuehne & Nagel, Panalpina
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- Are Plans for "Water Highways" to Relieve Truck Congestion Good for Supply Chains?

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Adjust magnification as needed to read on-line, or print to read hard copy.

Are Distribution Center and Material Handling System Audits a Good Value?

Insights Can Help Drive Improvement, if Structured Right; SCDigest's Guidelines

Like almost any system, a distribution center, or elements of the system, such as a warehouse management system (WMS) or material handling automation system, can degrade in performance over time.

A variety of system consultants and solution providers offer "audit" services, in which they will come in and perform a review of operations and systems, and offer recommendations about how to get the system back to more peak performance or identify other areas for improvement.

Are these audits services worth the cost and effort? Generally yes – but as always with a few caveats.

Types of Distribution Center Audit Services and Providers

Though there are dozens of companies and options for distribution center-related audits, in general the types of providers and audit services can be divided into three categories:

- **Distribution Consultants**: Generally, they will provide an audit of an entire distribution center, looking for potential issues with layout, product flow, operational strategies and technologies. These are often consultants that

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don't have an existing relationship with the company or have a relationship in other areas – and use the audit as a potential entrée for follow on work.

- **Material handling system providers**: Usually, these audits are from provider of the material handling system, either the equipment manufacturer (conveyor systems, AS/RS, etc.) or an integrator that implemented the original project. The scope is generally focused on the performance of the specific system the vendor provided.
- **Warehouse Management System or related software vendors**: Again, the focus is generally confined to performance and issues of the WMS itself, such as system configuration, not broader issues.

The costs of these audits range from virtually free to $10,000 to $20,000, depending on the scope, the level of talent involved in performing the audit, deliverables – and sometimes the goals of the provider. Very low cost or free audits are often a form of marketing geared to generate business from the recommendations.

"I am of two minds on audits," said **Mark Fralick**, an SCDigest Contributing Editor who has with experience in dozens of WMS projects and customers. "First, I do think that it is a very good idea to do periodic wellness checks. Given frequent business changes and underlying

"Most of the time if a system is relatively new , such as within the first year, multiple operational and equipment audits prove quite useful in terms of identifying opportunities for continuous improvement, particularly if the customer is a first-time automation user," says Gene Forte, Forte Industries.

technology changes, it is generally a good idea. But too many vendors turn the audit in to a sales opportunity, and I feel like it sometimes can become a situation where the customer is just going to be looking at a sales pitch for new software or services."

With that caveat, however, audits can deliver valuable third-party insight into how a system is performing. A consumer products distributor recently told SCDigest that they contract for regular audits from both their sortation system and WMS providers for a new DC system implemented five years ago.

"It's nice to have another set of eyes looking at what we do," the director of distribution told us. "Some years, they don't identify much we can use, but some years they do, and all told we think there is a good ROI."

Fralick says he breaks the audit process down into two components: operations and business.

"From an operations perspective, I like to think of a warehouse having three basic issues – getting product in, getting product to the docks and getting product off the docks," Fralick added. As a result, he recommends organizing a WMS audit accordingly:

1. How the company is doing things into the building (receiving, location selection, putaway, etc.).

2. How the company is doing getting product to the docks (order downloads, allocation/waving, replenishment, and outbound movements.

3. How the company is doing at getting product off the docks and shipped (shipment prep, ship dock management, carrier selection/usage, trailer loading, trailer management, outbound ERP Integration, etc.).

"After the operations side, you should then would work with the on the business side of things, such as reviewing order profiles, customer service level agreement, enterprise issues, etc. After both reviews are finished, you make an attack list and get everyone to buy off on priorities," Fralick added.

Before considering an audit, companies should look for providers from any of the three categories that have well-defined methodologies.

Gene Forte, president of distribution and material handling solution provider Forte Industries, says that while each material handling system and audit process is different based on the situation, in general the audits use a process that includes the following steps:

- Data review (SKU's, throughput volume, etc.)
- Operations examination (receiving, putaway, replenishment, picking, shipping)
- Information flow examination (software and IT analysis)
- Material handling systems inspection (conveyor performance, storage media application, automated picking efficiency, …)
- Labor usage/application (efficiency of labor, deployment of labor, etc.)
- Performance statistics analysis (inventory accuracy, on-time shipment, picking/shipping accuracy, etc.)

He adds that audits can be especially valuable not long after system implementation.

"Most of the time if a system is relatively new , such as within the first year, multiple operational and equipment audits prove quite useful in terms of identifying opportunities for continuous improvement, particularly if the customer is a first-time automation user," Forte says.

Getting Audits in the Budget

While many companies understand the value of audits, getting even the relatively small levels of required funding can sometimes be a challenge – especially in the middle of the budget year. Many companies put budget dollars in for audits from system providers each year, or on some other schedule.

SCDigest' s Mark Fralick says "I do think that it is a very good idea to do periodic wellness checks... But too many vendors turn the audit in to a sales opportunity, and I feel like it sometimes can become a situation where the customer is just going to be looking at a sales pitch for new software or services."

The consumer goods company cited above, for example, has an audit performed every year, but rotates between its WMS provider and conveyor system provider. Each of these vendors performs an audit every other year, on opposite schedules.

"We think that in general, an every other year approach is frequent enough to give us a good return, because there have been enough operational changes within those two years, and this way we're still getting one audit done every year from one of our two main system providers," the director of distribution told us.

Guidelines for Making the Most of DC Audits

To maximize your return on system audits, SCDigest recommends using the following guidelines.

- Consider agreeing to audit services for the first year and some set schedule at the time of the original contract. This not only establishes the mindset that audits will become a regular operational process, but you may be able to negotiate more favorable pricing at the time, when the vendor wants the overall business, than you can at a later.
- Determine via your system complexity and scope, and your own internal resources, how often an audit from your current vendor for software or material handling system is likely to make sense. For highly complex and dynamic environments, for example, an annual audit may be smart, especially if you don't have strong re-

sources to monitor system performance internally. Others may get by with doing an audit only every 2-3 years.

- Be very clear about expectations with the vendor or consultant – how will the process work, and what are the deliverables? Ask for methodologies and example reports.
- Be aware that local managers may be reluctant to accept or recommend audits out of fear they will show a lack of competence on their part. Senior management has to make clear that the reason for doing the audit is not to scrutinize DC managers, but to bring to bear expertise unavailable inside the operation.
- Track recommendations, actions and results. This will help ensure good ideas coming from the audit reports are in fact addressed, and build an ROI from the audit expense that can justify subsequent audits – or not.
- Realize that audit recommendations often don't include an ROI for a specific change. There may be recommendations that would be operationally beneficial, but can't be justified based on required investment in software modifications, additional material handling hardware, etc.
- Remember, as always, you get what you pay for. Free audits are in general more likely to be glorified sales pitches than solid analysis. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

The Issue:

Should you do regular distribution center "audits" of operations or systems?

Recommendations:

- Schedule audits on a cycle that matches complexity and scope
- Make clear to local managers that audits won't be used to criticize their performance
- Consider including audits in the original contract terms
- Track audit recommendations, actions and results
- Remember, you get what you pay for

Using Incentives to Drive Forecast Collaboration

Facing Disinterested Distributors, Heineken US Makes Forecasting a Contest

Getting active participation by sales in the forecasting process is always a challenge, and is especially difficult for the many companies that use distributors to get product to market.

The US arm of Dutch brewer Heineken faced that challenge in a big way, until an enterprising planning manager from Heineken used contests and incentives to drive significant improvements in forecasting and inventory planning processes.

Heineken, producer of its flagship brand of beer, as well as Amstel Light, Buckler, and other labels, has a different supply chain than most US brewers. The product is made in Europe, and shipped either directly to its US distributors, or to Heineken's "demand centers" – DCs in several areas of the country that ship only to distributors. In either scenario, Heineken ships product based on true distributor orders, rather than having beer pushed from the factory, as is still the rule in most US-based brewery operations. Distributors in turn sell and ship to retailers, bars, restaurants, and other outlets in this three-tier supply chain.

A key supply chain planning calculation for Heineken is the expected level of "depletion forecast" – the forecast for the level of draw down in distributor inventories based on shipments. The depletion forecast is then used to derive a related sales forecast of actual order from the distributors to Heineken.

Brian Dershem, at the time a planning manager at Heineken US, and now in a similar role for the Papa John's pizza chain, found he was getting only mediocre participation versus the level of expected contribution to the forecast from distributors in the Southeast region for which he was responsible.

As chronicled in a recent issue of **The Journal of Business Forecasting**, this lack of distributor participation and effort led to low levels of depletion and sales forecast accuracy, and the usual inventory problems that result from poor forecasts. These problems were exacerbated by the long supply chain and pull-based systems used by Heineken.

Forecasting Contests and Incentives

To get better participation and results, Dershem devised an incentive program for the largest 20 distributors in the region. Though the specific prize award structure and contest time periods were modestly revised a few times based on experience, the key aspect involved creating contests that offer attractive financial incentives to individual forecasters at the distributors for those that had the least forecast error.

For example, as can be seen in the figure nearby, Dershem initially created a weighted system that calculated a total score over forecasts for several sub-periods within a three-month window. The prize were initially given to an individual at the distributor providing the most accurate forecasts, and involved a $500 Amex gift certificate for every two and four-month forecast period, and a $2000 certificate for the best annual forecaster. These schedules were later revised to offer more frequent prizes and enable more planners a chance to win.

Several interesting dynamics happened after the program was imple-

"We were able to achieve our primary goal – dependable forecasts to drive the supply chain. What was exciting to watch was the renewed enthusiasm about forecasting," Dershem said.

mented:

- By publishing results of the on-going contest to all 20 distributors, a friendly competition quickly emerged. Planners at the distributors were not only competing for the prizes, but recognition.
- The differences in skill levels also quickly emerged. Several planners at the distributors quickly showed a much higher skill/accuracy level.
- An informal network developed, with less successful planners looking to the more successful ones for tips and techniques.
- Overall monthly forecast accuracy increased by 10% in one year after the program.

A similar program was later implemented with success to reward individuals for timeliness of inventory reporting and maintaining targeted on-hand inventory levels.

"We were able to achieve our primary goal – dependable forecasts to drive the supply chain. What was exciting to watch was the renewed enthusiasm about forecasting," Dershem said.

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

TABLE 2
CALCULATION OF OVERALL FORECAST ACCURACY SCORE

Bucket	Accuracy	Weight	Weighted Score (Accuracy × Weight)
3 Month Accuracy	78.1%	35.0%	27.3%
2 Month Accuracy	82.8%	30.0%	24.8%
1 Month Accuracy	90.9%	20.0%	18.2%
Mid Month Accuracy	93.8%	15.0%	14.1%
Overall Accuracy Score			**84.4%**

Heineken's Distributor Forecast Accuracy Contest Framework

Are Plans for "Water Highways" to Relieve Truck Congestion Good for Supply Chains?

As Calls for Use of Water Routes Increase, will Just-in-Time again become Just-in-Case?

The News: As a variety of state and federal regulators look for ways to decrease congestion on the nation's highways, getting trucks off the roads – and onto waterways – is an increasingly popular idea as a partial solution.

The Impact: Difficult to say yet, but the proposals floated thus far certainly seem to hold the promise of longer in-transit times and opportunities for delay. Shippers need to keep abreast of developments, and use their collective power and that of their trade associations to help steer any new proposals towards solutions that balance the interests of logistics and commerce as well as congestion.

The Story: One thing upon which everyone agrees is that congestion on the nation's roads and highways is getting worse – and spreading from the historically problematic areas of New York, Los Angeles, Chicago, and San Francisco to many other metropolitan areas, such at Atlanta, Miami, Dallas and many more. Given the lack of real transportation infrastructure development, most expect that pattern is only going to aggravate over the coming years. (See Transportation Infrastructure and the Future of U.S. Logistics.)

Now, some in government and other quarters are looking at greater use of the nation's waterways to take some of that traffic – specifically trucks – off the road.

For example, the U.S. Department of Transportation's Maritime Administration is pushing the idea of "marine highways" that would take freight from hundreds of thousands of trucks and move it over water on the Eastern seaboard for part of the journey.

The perceived benefit: reduced road congestion, without the need to pour additional tens of billions into infrastructure.

Back to the Future

The irony of the proposals is that for almost two centuries US waterways were the primary means by which freight cargo was moved. The Interstate Highway System and other developments changed that, but with the gridlock conditions that are faced in many areas, taking a "back to the future" approach is gaining some steam, especially in government circles.

House Resolution 2701, currently moving through Congress, will integrate the marine highway into the overall intermodal transportation system, though with much still to be sorted out in terms of specifics. Title IV of that bill will establish a new program to promote short sea shipping to move cargo on the Great Lakes and along our sea coasts.

As an example of how it would work, containers arriving at the Port of New York would not be transferred directly to rail or truck lines, but instead put on barges. From there, they would be transferred to Bridgeport, Conn., through New York Harbor and Long Island Sound, where they would be put on trucks.

The result: thousands of trucks removed every day off one of the I-95 highway between Bridgeport and northern New Jersey – one of the nation's most congested.

Lost Time In Hand-Offs?

As most shippers know, hand-offs between different parties involved in freight movement or modes of transportation always introduces the risk of delay. While proposals for increased use of waterways as in the example above would undoubtedly have benefits in terms of reduced congestion, fuel consumption and need for highway spend, just how much benefit would result – and at what supply chain costs – needs to be well analyzed.

With an increasing number of companies operating very lean, just-in-time supply chains, the delays possible – or even inherent – in such an increased use of waterways could cause real problems for many shippers and importers.

"I think the big concern, and rightly so, would be in the first few years of this kind of program," said Dan Gilmore, editor of Supply Chain Digest. "While they are working out the bugs, a lot of freight could be stuck instead of moving. And we obviously have the potential to add the Longshoremen's union into new areas of the supply chain, which has to be of some concern."

Some backers of the program, however, say the benefit to shippers will actually be fewer bottlenecks and most consistent transit times.

"We're losing our competitive edge because of congestion making it less dependable (for businesses) to get their products there when they need them," says US Transportation Secretary Mary Peters, in discussing the potential role of the waterways.

More on this soon from SCDigest. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

Lean Supply Chains: Kaizen or Rework?

Getting Bad Practices out of Revamped Value Streams

By Jim Womack, Founder
The Lean Enterprise Institute

This guest column is made possible by special arrangement with the Lean Enterprise Institute (www.lean.org).

I recently visited a contract electronics manufacturer with a striking capacity for kaizen – the steady improvement of every step along its key value streams. Dozens of kaizen events were being performed across the company to eliminate wasted steps and to remedy quality, availability, adequacy, and flexibility problems in each value stream. At the same time, kaizen teams were trying to speed continuous flow and to perfect pull systems when flow was not possible.

The managers were pleased with their work and I had to admire both their technical skills and their enthusiasm for rapid improvement involving the employees touching each value stream. However, I noted that most of the value streams being im-

proved were for products that had been launched recently. I wondered why so much kaizen was necessary.

Indeed, I pondered – as I often do these days – whether the kaizen effort was analogous to old fashioned end-of-the line quality inspection in mass production organizations. Value streams for new products were being put in place without much thought to lean principles or much rigor in thinking through the details

of every step and action. Kaizen teams were then inspecting the processes once in operation, finding them far from lean, and launching waves of corrective action.
Given that many bad practices had been built into the value streams, these kaizen efforts were necessary and highly productive. But why wasn't the organization performing lean process design as an integral part of the development process? And was the organization's skill in after-the-fact kaizen – that is, its talent for process rework -- actually reducing the pressure for the hard conversations about lean process development that ought to be taking place during product development instead?

As I've reflected on this situation, I've wondered if the practices of Toyota and other lean pioneers have been misunderstood. Kaizen is an important activity at Toyota and involves all employees. But new processes launched at Toyota are usually extraordinarily lean to begin with and post-launch kaizen is a small part of Toyota's competitive advantage.

The secret lies in Toyota's product/process development system that focuses on creating "profitable operational value streams" – to use a favorite phrase of the late Allen Ward. These streams have been thoroughly "pre-kaizened" by examining every step in the proposed production and fulfillment process long before launch.

The first step is to make sure someone is responsible for thinking about the whole process needed to bring a new product from order to delivery. By thinking about the production process at the same time the product design is being evaluated, it's possible to optimize both.

The second step is to lay out the process on paper and consider the different ways that it might be conducted. For new types of products requiring new processes it is particularly important to consider a number of different ways

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James Womack

the whole process and each step might be conducted and to conduct simple experiments to see which way works best. (This is the process development analogue of the Set Based Concurrent Engineering methods used to evaluate different approaches to the design of the product. It's also a key element in the 3P Production Preparation Process now conducted by advanced lean organizations.)

The third step is to test any new ways of conducting process steps with simple prototypes – even cardboard mock-ups -- to learn how well they actually work. (Another element of 3P.) The knowledge gained from these experiments then needs to be written down and turned into the experience curves of the sort Toyota develops from experiments with simple prototypes of new products.

(In fact, this knowledge is Toyota's great advantage in concurrently and rapidly developing new products and processes: At this point, most of Toyota's production processes are highly standardized and fully documented. Most new product designs only need to comply with well-understood process requirements to launch as smoothing flowing streams. By contrast, most organizations I visit have poorly documented processes with weak standards and little real knowledge of trade-offs in designing a process one way versus another. They will need a lean leap in consciousness and practice in order to catch up.)

Once the best process is determined, which may result in changes to the product design as well, the next step is to finalize equipment designs and information management systems.

Finally, it's time to develop standard work for every step in the value stream and standard management for the whole value stream. This includes a training plan for every employee, a plan for every part, and a maintenance plan for every piece of equipment.

If all of these actions have been completed by the start of production, the value stream should be very lean from the first item delivered. Kaizen will still be important, based on hansei (or reflection) about the performance of the process once operating, but it can start from a higher level in a more stable process so that additional rapid improvement is actually easier. It's my feeling that many organizations are now ready to elevate their level of play. As I hope I've made clear, this is not by de-emphasizing the idea of kaizen, but by performing the PDCA process that is at the heart of kaizen inside the development process. This will insure that every new value stream for every new product commences its productive life as a very lean stream.

Given the steady reduction in the length of product lives, I believe that it will become ever more important to achieve "process quality at the source". Otherwise, the product may be ready to go out of production before process problems are ever addressed through kaizen as rework. ■

Do you agree or disagree? Share your perspective by emailing us at feedback@scdigest.com

Price Fixing Turmoil Continues, as Officials Raid Offices of Kuehne and Nagel, Panalpina

DHL, Expeditors International also Contacted; Fuel Surcharges again the Key Issue; More Shipper Lawsuits on the Way?

The fallout from allegedly unfair fuel surcharges by transportation providers continues, as the offices of several leading global logistics service providers were raided last week by both Europe and US authorities investigating possible price fixing.

As we've reported in Supply Chain Digest, rail carriers in the US are under strong attack for alleged "over recovery" for their fuel surcharge programs. (See **Rail Carriers in the Cross Hairs**) LTL carriers in the US are facing similar legal attention.

In 2006, the US Justice Department and European agencies began looking into price fixing by air cargo providers, again related to fuel surcharges. As the probe continues, 15 class action lawsuits have been filed in district courts around the U.S. against United Airlines, American Airlines, British Airways, Air France-KLM, Lufthansa, and others for overcharging cargo fees, mostly related to fuel surcharge practices.

Coming out of the on-going investigation against the carriers, officials apparently found evidence of potential similar evidence by some freight forwarders.

The European Commission said it carried out unannounced inspections of the offices because it has "reason to believe that the companies concerned may have violated EC Treaty rules that outlaw restrictive business practices."

Patrik Ducrey, deputy director of Switzerland's competition authority, said the raids on Kuehne and Nagel and Panalpina, both headquartered in Switzerland, were triggered by information received from an unidentified person, who tipped EU, U.S. and Swiss authorities to alleged cartel behavior.

Offices of the companies received surprise visits from authorities on both continents. Meanwhile, Germany's DHL said it had been contacted by government officials, and US-based Expeditors International said it had also received a subpoena from the US Justice Department ordering the company to produce information and records relating to an investigation of air-cargo freight forwarders.

The investigations obviously will be a concern for company officials of the forwarders, as findings of price fixing can result in large fines and in the US criminal prosecution. For shippers, however, the actions mean another group of logistics service providers is likely to scale back fuel surcharges under the new cloud of suspicion, and lawsuits will be filed that could result in substantial payments to back to shippers from the forwarders if the price fixing is found to have occurred. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

FIATA

The International Freight Forwarders Association Now Finds its Members Under Investigation over Fuel Surcharge Practices

Combined with various class action lawsuits against rail, LTL and air cargo providers, shippers have a smorgasbord of potential legal activity – if they choose to join action against their logistics "partners."

Wal-Mart is Changing Its RFID Tune, Launching a New Set of Pilots

"Change of Focus," says Exec; Following Procter and Gamble's and Kimberly-Clark's Playbook?

So just how dramatic is Wal-Mart's announced change in RFID strategy?

It's clear that Wal-Mart has now aligned itself more clearly and directly where a few leading consumer goods companies, such as Procter & Gamble/Gillette and Kimberly Clark, have been promoting the opportunities for some time – focusing on promotional products to ensure high levels of execution compliance in-store.

The announcement by Wal-Mart's VP of Information Technology, **Carolyn Walton**, came at the annual EPC Global conference on Oct. 5.

Walton announced three new and very specific RFID initiatives – which signal a sharp change from the more general, broad-based program first announced in 2003 that has generated significant controversy and debate ever since. Many consumer goods companies have privately and sometimes publicly stated that there was little return from the costly case-level RFID tagging requirements.

There were some exceptions, as Procter & Gamble, Kimberly-Clark, Campbell's and a few others, who were both highly bullish on RFID generally and especially around the value in improving in-stock positions and floor level execution for promotional products and displays.

Earlier this year, in an interview with SCDigest, P&G's **Dick Cantwell** said, ""I've been in this industry with Johnson & Johnson, Gillette and now P&G now for over 25 years, keeping up on both the marketing and the supply side. I've seen every plan in the book to get better retail execution [of store promotions], and I've not seen anything that had ever lived up to its expectations. What RFID does is it gives you for the first time real, actionable visibility. It gives you the systems to really know where your products and displays are." (See **Unplugged Interview with Procter & Gamble on RFID Part 2** .)

Seems Wal-Mart has now got the message.

"We're coming at RFID from a different angle," Walton said at the EPC Global event.

Three New Wal-Mart RFID Pilot Programs

The first new Wal-Mart program will involve a pilot to tag pallets – not cartons – sent to a Sam's Club DC. That DC will be testing readers on racks to automatically track pallet putaway without the need to scan bar codes.

The second program involves asking only suppliers with featured promotional products to tag displays and products for those promo items. Wal-Mart will be testing new readers designed specifically to track execution and activity at various "hot spots" within its stores – such as end of aisle displays. RFID reads will tell store managers how well these promotions are being executed, and signal the need for action if a display or inventory is needed.

The third program is another test that will see if tagging across an entire category – presumably ones that have particular inventory issues – can increase sales by reducing out of stocks. The first pilot will involve air fresheners.

The first move, involving the Sam's Club pilot, has the advantage of only requiring pallet-level tagging – a much less costly requirement than earlier loose mandates asking for carton level tagging.

The second two are clearly aimed at refocusing Wal-Mart's RFID efforts

The second two new pilot programs are clearly aimed at refocusing Wal-Mart's RFID efforts at programs that can have a more immediate and clear return for vendors – and to limit tagging requirements for now to test programs that can demonstrate a return.

at programs that can have a more immediate and clear return for vendors – and to limit tagging requirements for now to test programs that can demonstrate a return for a specific group of vendors or products, not all products all the time. This more targeted approach will reduce vendor push-back, and more closely resembles the tack taken by Wal-Mart rival Tesco in the UK.

"From where we sit, this looks like good news," a logistics executive at a $300 million housewares manufacturer that was part of the last wave of vendors to face general tagging requirements. So far, the company has tagged only a small percentage of cartons it sends to Wal-Mart, and none it sends to Wal-Mart competitors. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

The Issue:

- Wal-Mart is "re-focusing" its RFID programs

Three New Pilot Programs

- Pallet tagging for a Sam's Club DC to test RFID-based putaway
- Tagging of just products and displays on promotion for the week, testing new "hot spot" reader networks in store to improve promotional execution
- Tagging an entire category, starting with a test of air fresheners, to see if sales can be lifted through improved in-stocks.

Best Practices of e-Sourcing

Five Tips for getting the most out of On-Line Procurement and Reverse Auctions

While a majority of large companies and many smaller ones have started to use e-Sourcing processes and tools, the approach is still relatively immature in most procurement organizations.

Below, SCDigest offers five tips for improving results from e-Sourcing and Reverse Auction results.

Prioritize The Trinity Of Reliability, Quality And Price: The ultimate goals of e-sourcing are really no different than traditional sourcing, and that is to develop a network of reliable suppliers that provide high quality products or services at competitive rates.

To account for criteria such as quality, reliability and value-added services, buyers should move away from price-only negotiations to multi-attribute scenarios that allow suppliers and buyers to trade-off non-price variables against price.

Buyers who determine and rank their priorities for each of these factors prior to developing purchasing specifications and keep them top-of-mind

when evaluating bids will be more satisfied with the results of the e-sourcing engagement.

Use e-Sourcing Strategically: e-Sourcing is not the ideal solution for every purchasing situation. Often, it is best suited to buying commodity products such as raw materials, manufacturing components, construction materials, and similar items.

It is typically not well-suited for procuring highly-customized or regulated products and services – though some argue that is changing.

Provide Clearly Defined And Relevant Specifications: Clear requirements and expectations ensure a true "apples-to-apples" comparison from bidding suppliers, which saves buyers' time in evaluating proposals and helping to eliminate unqualified suppliers early in the process. It also results in a pool of best-of-breed suppliers that will participate in the e-sourcing event.

Relevancy is also critical in that buyers should carefully consider what information they really need to gather to make a sourcing decision. They should also judiciously determine minimum requirements to meet the scope of the purchase.

This level of consideration is a benefit to both buyers and suppliers. If buyers request excessive or irrelevant information, they end up wading through data that offers no real value. Conversely, suppliers will spend an inordinate amount of time providing unnecessary documentation and may potentially become disenchanted with the process and the buyer.

E-Sourcing It is typically not well-suited for procuring highly-customized or regulated products and services – though some argue that is changing.

Focus On The Quality, Not The Quantity Of The Supplier Pool: While e-Sourcing offers unlimited access to worldwide suppliers, the challenge comes in weeding out those that are not qualified or do not offer the best fit for a given sourcing situation. Therefore, suppliers must be thoroughly screened prior to the negotiation process; otherwise the buyer may choose the lowest bidder because of the promise of great cost savings. However, on further investigation the buyer learns that the potential supplier is unable to meet other non-price criteria or contract terms.

e-Sourcing, however, is an ideal tool for bringing together groups of suppliers and evaluating them based on multiple factors, not just price. These factors may include value-added services, years in business, revenue, references, certifications, locations, delivery options, and immediately available inventory levels.

One tactic buyers have used to incorporate non-pricing based factors into the purchasing equation is to assign numerical values to bidders' track record for meeting deadlines, delivering quality and overall business practice integrity.

Encourage Suppliers To Participate In Shaping Negotiating Terms: While it may seem counter-intuitive to allow suppliers to weigh in on the negotiation terms, it can sometimes actually yield significant benefits to buyers.

e-Sourcing accommodates a multitude of bidding environments, from closed bids to open auctions. Encouraging suppliers to voice their preference for disclosure not only creates good will, it also ensures a larger pool of qualified suppliers will want to participate because it allows them to feel more in control of an often intimidating situation. For instance, utilizing "closed" or "sealed" on-line negotiations conceals suppliers' identities and bids from other participating suppliers. The alternative could conceivably force them to drop pricing to uncomfortable levels to stay in the auction.

A middle ground involves displaying suppliers' ranks instead of exact bids to show them how competitive they are in the negotiation. Conversely, if suppliers are comfortable with an "open" environment they can benefit from the competitive information they gather in the process.

This intelligence allows them to understand why they did not win the business and better position themselves for future opportunities. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com