

All Dressed and Ready to Go

Store-ready demands are reaching a new level. Here's how to prepare.

Check in at the receiving dock of your local grocery store today and you're likely to see a completely different picture from what you saw just 10 years ago. Instead of mixed pallet loads of everything from soap to cereal, you're likely to see pallets with very similar products packed together: A pallet of bread here, another of diapers there.

The idea behind the approach is to make life simpler for the retailer when it comes to unloading the pallets and lining the store shelves. It's a concept that many DCs are finding in increasing demand. Knowing how to meet these demands in an efficient manner is the path to happier customers as well as improved numbers.

"The pressure is on to reduce the labor costs at the store level," says Lance Reese, technical solutions director at Intelligrated, a material handling solutions provider. "The theory is that more stores mean more labor when compared to the DC/store ratio. A reduction on store level cost should translate into an overall supply chain savings."

Scott Zickert, at software vendor Red Prairie, agrees. "Store ready demands have definitely grown over the past few years," he says. "Companies are feeling the pressure to put together pallets that are easily managed at the retail site."

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A combination of strategy, proper software and equipment can help achieve the results retailers want.

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Fuel Costs: Higher and Higher Creative ways to slash fuel bills.

From large to small, there's not a single company out there that isn't feeling the sting of rising fuel costs. No one wants to pass these costs down to the consumer level, so everyone is doing whatever they can to avoid that, when possible. The result is that companies have gotten ever more creative in finding ways to slash their fuel bills.

Take the Home Depot. The company recently went through a multi-year supply chain transformation plan. At the heart of the plan was a move from LTL to truckload service. To manage this, the company created flow-through facilities that allow the company to crossdock much of its merchandise. Instead of having to ship to stores using LTL, then, the company can ship truckloads.

The savings from such an approach can pay big dividends.

Coffee king Starbucks has also looked at its transportation strategy as a way to cut costs. The company has significantly cut its fuel usage—by more than 3 percent—by reducing the frequency of its deliveries. In addition, it has reconfigured where some of its DCs are located to get inventory closer to customers, and is using more intermodal service.

The methods are as varied as the companies involved, but one thing is clear: companies must slash their fuel bills one way or another.

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So what's a good company to do with these demands? A combination of strategy, proper software and equipment can help achieve the results retailers want.

The reality

The trend for store-ready deliveries is so big that giants like Pepsi Beverages Company, based in Somers, NY, are making changes to ensure an efficient packaging operation. "In a competitive business environment, speed and space is always in demand," says senior vice president, supply chain strategy, planning and logistics, Paul Hamilton. "Store-ready shipping is a way to cut the back-room footprint.

"It also reduces the chance for damage and the costs related to damaged product, and the labor and time required for stocking and merchandising. As back-room footprints shrink, we'll likely see an increase in store-ready shipping requests."

Depending on what type of operation you run, your solutions to store-ready demands will be different. "Grocery retailers are really pushing the packaging way back in the DC," says Rickert. "They want to get that product off the truck right away. Clothing retailers might take a bit more time with their unloading process, so the store-ready packaging doesn't hold as high a priority for them."

He sees some commonality, however, in the type of demands out there. "You might be asked for anything from preparing pallets in certain ways to breaking those pallets down at the retailer and putting away inventory," he says. "I've even seen some retailers ask that pallets be put together in a way that would enhance the ergonomics of unloading pallets. Companies want to be

able to track labor costs from before and on through until the product reaches the shelves."

Other demands drill all the way down to the carton and tote level. You might be asked, for instance, to have end-aisle displays pretty much ready to go when the trucks reach the stores.

"For most retailers, there's a push to get store totes containing items for a department within their stores," says Reese. "Others are moving to narrow that requirement to an aisle within a department. With success in accomplishing these two levels of service, retailers and vendors will take the step to shelf targeted store totes."

Companies that can deliver these demands in the swiftest and most cost efficient manner will hold the cards over the competition.

Whatever the case may be, there are added costs involved and companies need to figure out a way around them. Often, this can seem like an overwhelming and expensive road to follow.

What's needed

Being able to handle the demands for store-ready packaging is usually going to require extra technology and/or automation. While that adds cost into the equation, it also can save the costs of either losing customers, or of using a custom packager to do the job (see sidebar).

Pepsi Beverages Company is handling demands with a new holistic supply chain solution they're calling DSD2. "This process takes a streamlined approach—from sales and order placement through warehousing and delivery, and touches all points of the supply chain," says Hamilton. "It allows us to provide our customers with the exact amount of product they need at exactly the right time, and also offers a way to deliver customized orders based on geographic preferences or sales peaks. It allows us to reduce out of stocks and be more exact with forecasts and order accuracy."

Reese says that automation of some sort is necessary to fulfill the retailer demands. "A flexible fulfillment (order piece picking) system and a method of routing store totes from pick area to pick area within the DC are needed," he says. "A good fulfillment system will also provide the electronic data required at the store to properly handle the inbound store totes."

Zickert says that software solutions play a key role in also helping determine where labor inefficiencies exist on both sides of the equation. It can also help establish rules to help drive the packaging operations.

"It helps to have an order management software package, but if you don't have that, we can set up rules

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Floor layout is another consideration that can make a big difference in labor efficiencies.

within a WMS to match how retailers want to receive their pallets with your inventory and pallet locations,” Zickert explains. “There is a wide variety of ways for us to set up categories and rules. We can

also establish workforce solutions to help companies track the orders and their progress.”

Pepsi Beverages Company’s priority software helps it build the perfect orders, says Hamilton. “Then our automated warehouse retrieval system helps us build the pallets in one central location,” he explains. “We’re then able to ‘top the orders off’ at our satellite warehouses. Since the system is component-based, we have the ability to mix and match the technology to meet the needs of the geography.”

Other pieces to the software puzzle might include slotting software or warehouse control systems to help set up order sequencing. Having software that can help load up the pallet in the most efficient manner, especially when dealing with a variety of sizes and shapes, can be a big enhancement to operations.

Beyond software, companies also must consider automation.

A simple way to integrate automation into the customized packaging is to use automatic palletizers that are fed by conveyor belts. This takes some of the load off of human labor and is often a faster option.

To really crank it up, some companies use full automation in the form of AS/RS and/or robots.

Other pieces of the puzzle

Being ready to handle store-ready packaging goes beyond software and automation, however. Floor layout is another consideration that can make a big difference in labor efficiencies.

SIDEBAR:

Contract Packaging— A Good Option?

With all the demands on companies to produce specific packaging for delivery at the store level, some companies might just want to throw their hands up in the air and pass the task on to a third party. And like anything else in life, if there’s a task, there’s a third party willing to do it—for a price.

Enter contract packaging. These companies receive the products, put them together in the exact configuration the retailer wants, then ship it back to the manufacturer’s site for final shipping. These packagers are pros, so you get a great end product and save your DC the time and labor involved in performing the task.

But—it all comes at a high cost, according to Kane Is Able’s Mike Marlowe, who wrote about the topic recently. According to Marlowe, using a third party contract packager adds as much as 30 percent into your cost line. In this economy, that’s probably not an expense many companies want to incur.

Instead, Marlowe urges companies to do the task on their own. If you use a 3PL, see if they do the task. He lists these benefits of going it alone or with a 3PL for this task as:

- **Lower freight costs**— All the extra shipping to and from a contract packager can be as much as 38 percent higher than doing it yourself.
- **Lower inventory carrying costs**— If you use a contract packager, you can expect to add about seven days into your cycle.
- **Reduced labor and equipment**— While that might seem counterintuitive, Marlowe says that by combining packaging and distribution tasks in the same building, labor and stock can be deployed where it’s most needed.

For companies pinching every penny these days, handling packaging in house, rather than through a custom packager, makes plenty of sense.

If you have one big customer that makes up most of your store-ready demands, you might consider allocating a section of the DC to this customer and setting up shelving similar to store layout. Yes, this requires some reengineering and analysis, but the time/labor savings might make it worthwhile.

Overall slotting is another place you want to consider to help with the task. Rather than setting up like a store layout, you could instead keep all similar SKUs in

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Unique Green Tool

DHL recently unveiled its carbon dashboard, a sign of things to come for shippers.

Everybody wants to green its supply chain to the extent that it can economically. Often times it requires a joint effort between shippers and carriers to make any kind of meaningful impact. DHL Global Forwarding recently released its “carbon dashboard” that makes going green a bit easier for shippers.

According to DHL, up to 50 percent of the carbon footprint of a product comes from the supply chain. DHL is betting on the idea that in the future, carbon will become a global currency. By developing a line of tools to combat and track carbon emissions, DHL hopes to make it easier for customers to integrate carbon into their balance sheets.

The carbon dashboard is essentially an emissions tracking tool. Shippers working with DHL can use the tool to receive customized reports on the emissions released throughout their supply chains.

DHL says that it developed the tool in response to a study it did in 2009, asking customers what they wanted out of a green supply chain. The company says that the study showed it that business innovation and customer demand for environmentally friendly products and services would drive the logistics industry to become “carbon efficient.”

Based on those findings, DHL Global Forwarding developed a complete portfolio of green logistics services. The product line falls in line with the company’s internal efforts to improve its CO2 emissions and that of its suppliers by 30 percent by 2020.

How it works


The carbon dashboard is one of those products and was about a year in the making. It is an online tool that maps, step-by-step, the CO2 emissions generated throughout the supply chain of any one of DHL’s customers. By utilizing the information delivered from the dashboard, DHL and its customers can work together to develop individualized supply chain solutions aimed at reducing the carbon produced.



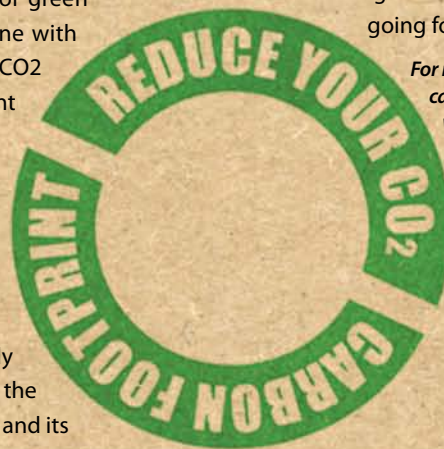
When using the carbon dashboard, customers can choose from a variety of reports to better understand the main drivers of carbon emissions from a variety of transportation modes. The dashboard helps account for and manages carbon emissions, including third-party emissions. Customers can tap into detailed CO2 mapping from a web-based hub.

Taking the data produced from the dashboard a step further, DHL has developed a way to compare it to other supply chain parameters. The dashboard uses a standard calculation approach, allowing customers to compare it to other factors, such as volume shipped, product density, and trade lane efficiency. Customers can also “dry run” various carbon reduction scenarios using real data and exploring the effectiveness of different optimization levers.

DHL has a strong track record when it comes to green initiatives. In 2010 alone, according to the company, it offset some 82,000 tons of carbon emissions for its customers. It also shipped over 1.7 billion CO2-neutral items under its GOGREEN initiative.

While DHL is behind the new dashboard program, it is just one of many companies that will be introducing more green products and services going forward. 

For more information on the carbon dashboard, go to www.dhl.com.



The carbon dashboard is essentially an emissions tracking tool.

adjacent locations. Diapers and baby formula, for instance, are likely to be shelved in the store together or close by. Keep them near each other in the DC too, to meet the store-ready demands.

You also must consider quality control if you are adding another element to your operations. Retailers are going to come down hard on mis-packaged orders, perhaps harder even than on a missing order. Ensuring your QC is on top of packaging can help eliminate that risk.


Another potential element to consider is hiring a packaging professional to help you get set up. These pros know the best ways to manage packaging demands and keep customers happy. It may not even need to be a long-term employee, but a consultant who can help with the start up of the operation.

Of course, none of these changes come without cost. Reese recommends taking a long-range approach when looking to cost justify. "The SKU profile for store ready orders is determined by the frequency of delivery to each store and the level for store service," he says. "To be the most effective, store orders are most likely to have high SKU counts and small quantities required of each SKU.

"Store ready is often an automation solution so some retailers look at the cost of the automaton and compare

it to the labor savings over a short period of time. The investment in the automation should be considered over a longer period of time."

Pepsi Beverages Company's Hamilton expects that the changes the company has made will be well worth it. "A new approach takes time, and our DSD2 solution has been years in the making," he says. "While it delivers tremendous value in the long term, it also requires significant upfront capital. We've been able to use our Tampa location as a pilot and learn from our opportunities there."

He recommends that other manufacturers keen to provide packaging solutions to customers take a holistic approach. "Many companies look at business functions as stand-alone silos," she says. "Sales, warehousing, and go-to-market tend to be viewed as separate entities. Taking a broader, more collaborative view is key, because while it might mean that in the short term one functional team might make some 'trade-off' for the collective good in terms of capital or investments, the broader solution ultimately benefits the entire organization." 

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Kevin Wicks, VP of Business Development, Daryl Flood Logistics
Andrew T. Williams, Business Development Manager, Vanderlande Industries
Michael Wright, VP, Midwest Global Distribution



Fuel Costs: Higher and Higher *continued from page 1*

Pooling resources

One approach to cutting fuel costs that is working for some shippers is transportation pooling. Stage Stores, based in Houston, has taken the bull by the horn in this accord. With over 800 stores that include Bealls, Goody's and Peebles, and 30 new stores on the way, fuel costs have a big impact on the company's bottom line. Stage Stores recently decided that it couldn't continue with the way things were going.

"The cost of fuel is a big deal for us," says Gough Grubbs, senior vice president of logistics and distribution. "It's pushed us to do things we should have done in the past."

Grubbs estimates that since 2010, fuel costs have risen 28 percent. "Those are big bites to combat," he says. "Many retailers, like Macy's and Penney's, are doing some of the same things we are."

At the heart of the changes Stage has made is a pooling program with other retailers operating in the similar locations. The company has three DCs—one each in Texas, Virginia, and Ohio—and works with other retailers to utilize the DCs for pooling.

"We have small stores and deal with small numbers of cartons," explains Grubbs. "We want product going into our stores every day. If we couldn't fill a truck, we figured other small store retailers couldn't either."

After talking with their carriers about what could be done to improve the costliness of the situation, Stage Stores began looking for retailers that might want to share space on trucks. "Our carriers helped us find the partners," says Grubbs. "Now we work with three other retailers to pool space."

The program works by having Stage's partners ship their small parcels into Stage's DCs, where Stage cross-docks and loads them onto trucks. Stage adds its own products to the mix and the trucks fill up, much quicker than the small loads Stage was sending onto the road before.

"As the program grows, we'll be able to grow our network of retailers who want to be involved," says Grubbs. "So we not only get a better frequency of trailer releases out, but we get our carrier to pick up inbound from some of our vendors at lower rates as well. It gets you out of the bidding war for drivers."

Additional savings came in the form of negotiated inbound rates. "We've got those rates lower than they'd typically be," says Grubbs, "because the trucks are already out there."

The methods are as varied as the companies involved, but one thing is clear: companies must slash their fuel bills one way or another.

"The more partners you get involved, the lower the costs and the more frequent the deliveries."

Gough Grubbs

To coordinate the program, Stage worked with its carrier on software. "We have a third party who does the manifesting," explains Grubbs. "Now it's universal and we sort by zip code in the barcode."

While the offset to fuel costs is important, Grubbs points to the additional benefit of more timely product release as key to the company's continued success. "In 2009, when the economy took a hit, we went to our carrier and said 'if we don't go every day to the out-of-way stores, can you reduce our rates?' and the answer was yes," he explains. "Now with the additional volume on the trucks, we can get shipments out more timely."

Grubbs recommends that more retailers consider pooling programs. "Many companies don't even know what percent of their volume goes on truckload versus LTL, etc.," he says. "But there's such a big variance in costs that you need to be on top of it."

More = better

The company has looked at several other ways to reduce costs. One involved buyers. Grubbs says that getting buyers to coordinate can pay off. "We have so many different buyers and they didn't collaborate," he explains. "So now we are coordinating with their pickups."

Last year Stage Stores also got deep into its packaging practices to see where they could find savings. "We'd find cartons with only a couple of items in them," he explains. "We can't afford to ship air. We worked with the vendors to reduce the carton use to a fraction of what it was."

The huge benefit from all of these actions is that Stage is managing to avoid passing along rising fuel costs to customers. "Costs go up and you have margins you need to hit," Grubbs says. "But we've tried to keep the costs under control for our customers."

As Stage Stores continues to reap the benefits from its efforts, Grubbs continues to get requests from other retailers to get involved. "There are a lot of small retailers out there and small parcel rates keep going up," he explains. "You kind of get forced into a pooling program if you want to keep costs down."

When a pooling program first gets under way, you're not going to get daily deliveries, says Grubbs. "But as the program grows, that changes and you get more frequent deliveries," he says. "The more partners you get involved,

the lower the costs and the more frequent the deliveries.”

He points out that getting involved in a pooling program requires a definite leap of faith. “You can’t go it alone,” he says. “You need a carrier who can participate and you need partners will to take a risk. You have to learn to trust your partners in this. When you see the benefits, you know it’s worth it.”

Rethinking relationships

Retailers and shippers aren’t the only ones feeling the pinch from the fuel costs. Trucking companies are also hard hit. Many smaller companies have faced bankruptcy over the past couple of years. Even large companies—those with as many as 1,000 units—are disappearing in some cases.

This has forced carriers into rethinking the way they operate. This means changes for shippers too, who must readjust to the new way of business with their carriers.


With fewer trucks on the roads thanks to bankruptcy, shippers may soon face a capacity shortage. Taking steps now to avoid pain as fewer trucks become available will help ease the pain.

Like Stage Stores did, consider working with your carriers in different and unique ways. By working together, you can come up with solutions you might not have thought of on your own. Also negotiate contracts to ensure you do not have to absorb all the costs on the shipping end.

Do like Starbucks did and think about how to move DCs closer to the customer. This cuts down on miles and thus minimizes the fuel costs incurred. Or if you’re a manufacturer, consider consolidating manufacturing and warehousing.

When working with carriers, talk to them about their typical freight flows. If you can mesh with their schedules and flows, you can likely cut down on costs. Give your carrier a chance to offer up options.

Finally, think outside of the carrier mode. Rail, while slower, is a cheaper option. Weigh the pros and cons of adding a day or two to your supply chain. The savings may prove worthwhile.

In the end, it’s often the most creative companies that weather the storms the best. Being flexible and open to new ideas just might be the ticket to minimize fuel costs and see you through to the other side of the recession. 

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Gough Grubbs, Stage Stores, www.stagestores.com

SIDEBAR:

What Government is Doing to Help

There’s no question that the rising fuel costs have a negative impact on the economy. As it gets harder and harder for companies to meet their gas bills, the costs get passed along to customers and ultimately, the consumer. And thus the vicious cycle continues.

Recognizing this, government has made efforts to help ease the pain for the overall economy by developing a set of standards aimed at improving fuel efficiencies in heavy duty trucks and buses. Released in August, the new standards were a joint effort between DOT, the EPA and several industry stakeholders, including transportation and distribution companies.

The comprehensive program will focus on trucks and buses built from 2014 to 2018 and is expected to reduce oil consumption by 530 million barrels. It is also expected to reduce greenhouse gas pollution by approximately 270 metric tons.

Vehicles included in the standards fall into three categories: combination tractors, heavy-duty pickup trucks and vans; and vocational vehicles like transit buses and refuse trucks. There are specific targets within each category depending on the design and purpose of the vehicle. Each subcategory will have its own set of achievable goals for each year.

According to the government, the program should yield an estimated \$50 billion in net benefits over the life of model year 2014 to 2018 vehicles, and to resulting significant long-term savings for vehicle owners and operators. A semi truck, for instance, should be able to pay for the technology upgrades in under a year and realize a net savings of \$73,000 through reduced fuel costs over the truck’s lifetime.

Some semis will be required to achieve up to approximately 20 percent reduction in fuel consumption and greenhouse gas emissions by model year 2018, saving up to four gallons of fuel for every 100 miles traveled.

For vocational vehicles such as delivery trucks, the requirement will reduce fuel consumption and greenhouse gas emissions by approximately 10 percent by model year 2018.

The American Trucking Associations support the new standards and say that they fit well into its overall plans to improve truck fuel efficiencies. The organization added several other suggestions to enhance fuel efficiency, including:

- **A national speed limit of 65**
- **Rules that would allow trucks to be electronically governed at that speed**
- **Efforts to reduce congestions, which leads to increased idling and wasted fuel**
- **Incentives for technology reduces idling while trucks are off the road**
- **Continuation of the EPA SmartWay program**
- **Reforms of federal truck size and weight limits to allow the industry to operate its most productive and efficient vehicles.**



Collaboration Moves Center Stage—It’s “Hot” Once Again

Existing practices, newer techniques actively promote collaboration as their core principle.

Collaboration is back, stronger than ever, prompting the question: Did it ever really go away? With the re-emergence of collaboration as an acknowledged and accepted business practice, and the emphasis on terms such as “we,” “trust,” and “sharing,” several authorities closely associated with collaborative initiatives were asked for their insights. Their comments:

- “As supply chains get longer, more fragile and more complex, the idea of creating long-term collaborative partnerships is gaining more traction. But it’s one thing for companies to be aware of the need to collaborate, to assert they are collaborative, and quite another to have truly collaborative people and processes in place.” **Kate Vitasek**, founder, Supply Chain Visions, Bellevue, Wash., and faculty member, University of Tennessee’s Center for Executive Education.
- “I don’t think collaboration ever went away, but it’s much more acceptable now. Our industry and business in general has evolved in a way that companies can now focus on the benefits of a mutually beneficial collaborative partnership.” **Chris Kane**, chief customer strategy officer, Kane Is Able, Scranton, Pa.
- “Collaboration continues to advance while the hype-cycle peaked and waned over time. Companies never stopped increasing information-sharing and developing collaborative scorecards to manage and monitor performance.” **Larry Smith**, senior vice president, planning and replenishment, West Marine, Watsonville, Cal., and co-chair, The VICS CPFR Committee Advisory Team.
- “The need for collaboration never went away. It is simply that as companies migrate more towards better internal integrated collaboration they see a need and benefits of collaborating externally with trading partners.” **Ron Ireland**, principal, Oliver Wight Americas, New London, NH.

CPFR is about collaboration

Fundamentally, the aim of Collaborative Planning, Forecasting and Replenishment (CPFR) is to convert the supply chain from a disjointed, ineffective and inefficient “push” system to a coordinated “pull” system based upon end customer demand. “VICS CPFR is defined as a business practice that combines the intelligence of multiple trading partners in the planning and fulfillment of customer demand,” explains Smith. “CPFR links sales and marketing best practices, such as category management, to supply chain planning and execution processes to increase availability while reducing inventory, transportation and logistics costs.”

The VICS CPFR committee re-launched the brand in 2003 and 2004, replacing a “seemingly rigid nine step model” with a four quadrant process model that was accompanied by four guidelines exploring emerging and broadly followed approaches to Store Level Collaboration, DC Level Collaboration, Event Forecast Collaboration, and Assortment Planning Collaboration in Apparel and Footwear. Last year the committee published a significant guideline aligning CPFR and S&OP (“Linking CPFR and S&OP: A Roadmap to Integrated Business Planning”), and is currently finalizing a guideline providing best practice recommendations to industry participants on managing retailer supplier schedules (or order forecasts).

“Our emphasis on collaboration is total because we believe and know from our practical business experiences that innovating together in a connected supply chain will increase the potential benefits for all supply chain participants,” maintains Smith. “For a CPFR program to be successful, the lead trading partner needs to engage its trading partner organization at multiple levels as well as across multiple disciplines.”

Logistics, distribution and CPFR

Logistics and distribution are key parts of the collaborative teams in any CPFR engagement. “After all, the essential handoff in the supply chain is company-to-company shipping and receiving,” says Smith. “Collaboration metrics include on-time and complete shipping as well as freight presentation and accuracy.”

Logistics and distribution must participate in capacity



planning and lines and dollar forecasts for both inbound and outbound shipments. The CPFR inputs to this planning process derive from a robust forward forecast.

Without such a forecast, the logistics and distribution team is limited to planning based on prior years or trending current activity levels, neither of which is likely to be as predictive as the CPFR forecast for key logistics and distribution activities," explains Smith.

"The teams will gain a greater understanding of the factors that may increase volume variability, as well as how to manage variability," he notes. "Being a full partner in the process and fully informed, the logistics and distribution team will be able to exercise their command of effective processes to lower costs and achieve higher service levels."

Collaboration key to IBP/S&OP

Integrated Business Planning/Sales & Operations Planning (IBP/S&OP) is an executive management process for operating and managing an entire business or enterprise. IBP/S&OP initially is used for internal collaboration and the processes then become the foundation for external collaborative practices such as CPFR. "All of the functions within a company keep quantitative and qualitative information, plans, and actions aligned and synchronized on a continuous basis," says George Palmatier, principal, Oliver Wight Americas. "Similarly, customers and suppliers are aligned and synchronized when IBP/S&OP is extended beyond the internal functions of a company."

"To establish collaboration as the norm requires strong leadership from the chief executive or the person-in-charge," says Colleen "Coco" Crum, Oliver Wight Americas principal. "As an IBP/S&OP process is implemented, you witness collaboration at the executive management level and middle management level." The focus shifts from how to optimize an individual function to what do we all need to be doing to ensure that we are satisfying customers' expectations and meeting our enterprise's business and strategic goals, she explains.

Being collaborative and operating IBP/S&OP successfully takes practice," maintains Crum. "Companies should not spend a year or longer trying to design the perfect IBP/S&OP process. Less than perfect processes bring substantive operational and financial improvements to companies."

To get quick wins, implement the process as rapidly as possible and then use a continuous improvement approach to improve the process every cycle is the advice.

Next frontier for IBF/S&OP

Transportation and logistics is the next frontier for IBP/S&OP. For a transportation and logistics company, begin to establish IBP/S&OP for the business, and then once it is working well internally, move on to collaborate with external partners. For a transportation and logistics organization within a company, the objective shifts to having this organization gain a seat at the table in the company's IBP/S&OP process. If the company does not have an existing IBP/S&OP process, Crum suggests the transportation and logistics organization move ahead with the process and begin to influence the value gained from better integrated planning and collaboration.

Vested Outsourcing

Vested Outsourcing, an outcome-based hybrid business model developed by University of Tennessee researchers through extensive field work, starts from the premise that there is a better way to form and manage the outsourcing relationship between company and service provider. "The concept is based on collaboration, communication, innovation, and trust, where all of the parties have a vested interest in successfully achieving clearly defined outcomes," explains Vitasek.

"The Vested model employs five rules designed to transform the outsource partnership and encourage innovation, moving it beyond the old and inadequate transaction-based model that is based on lowest possible labor and transportation costs while eliminating the common ailments that can hinder or derail the outsource relationship," according to Vitasek, who authored two compelling books on the topic ("Vested Outsourcing: Five Rules That Will Transform Outsourcing," and "The Vested Outsourcing Manual"). The five rules are linked to ten elements designed to take practitioners through the Vested Outsourcing implementation in a coherent, coordinated and systematic way from identifying the business, sharing the vision, stating intentions, to managing and governing the enterprise.

"Collaboration is intrinsic and essential to a successful Vested Outsourcing partnership," maintains Vitasek. There is no way to construct, implement and manage a

**The Vested model
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Kate Vitasek

continued on page 10

"The flow of information among manufacturers, 3PLs, and retailers is what keeps the entire process running..."

Chris Kane

Collaboration Moves Center Stage *continued from page 9*

Vested agreement without continuous and real collaboration. It would be impossible to craft a realistic and effective shared Vision and Statement of Intent, for example, without a true collaborative mindset." She also coined the phrase: "What's in it for We," with the emphasis on "We."

Both parties must enter the Vested relationship with a firm idea of what they want to accomplish and a real desire to work together—to collaborate—to reach their goals, she insists. Vitasek advises: Top-level executive buy-in is essential along with a clear understanding of each party's capabilities, cultural and administrative guardrails.

"The Vested approach is a new way of thinking about the business relationship and requires a level of trust among companies, both internally and externally, that perhaps they have never considered or experienced," she notes.

Collaborative Distribution

Collaborative Distribution is more than a simple freight consolidation program, argues Kane. "It's a new way of doing business that embraces the dynamic relationships that are necessary among manufacturers, 3PLs, and retailers to create a continuous flow of information and product in a consumer-driven market."

In Collaborative Distribution manufacturers warehouse their goods with a view of consolidating deliveries with other manufacturers' goods going to the same final destination. Deliveries by different suppliers on the same routes are consolidated into full truckloads, and 3PLs act as traffic cops to make it all work smoothly (provide simplify billing, flat-rates and per-pallet charges, etc.). The benefits are "staggering," according to Kane: Reduced transportation, which is the largest cost center in the supply chain for manufacturers; less frequent, consolidated orders for retailers; and reduced emissions and

fuel usage due to fewer trucks on the road for everyone.


"Collaboration is the heart of the process," he insists. "The flow of information among manufacturers, 3PLs, and retailers is what keeps the entire process running, and I think it's exactly what has kept many companies from exploring Collaborative Distribution," Kane maintains. "Advanced in technology and successful partnerships have proven that sharing information can be a very lucrative endeavor."

Creating an environment of trust is absolutely essential. "One of the best ways to establish that environment is to create a common set of goals and performance indicators," he explains. Over time, these expectations need to be monitored, met (or exceeded), discussed and revised on a regular basis among all of the contributors.

"Through this process, collaboration begins to foster innovation allowing the whole enterprise to become greater than the sum of its parts," maintains Kane. "Although Collaborative Distribution is a process, I believe it's also a state of mind. It's about sharing information and using that insight to make an operation more efficient, more cost effective, or just plain better."

Lasting insights

"Collaborative innovation driving value is the essence of the expanding opportunity available to collaborative value chains," states Smith. "Collaborative organizations understand that they are not competing with supply chain partners, they are competing as supply chains."

Oliver Wight's Crum observes: "We foresee that as companies gain competency in collaborating internally and externally, collaboration will become a standard practice, rather than a best practice." 

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