

Can buying groups play a role in wholesale distributor and supplier collaborations?

In my neck of the woods, it was recently forecast that we would get up to 6 inches of snow – maybe. The National Weather Service (NWS) was not really sure, predicting an 80% possibility. Just two days before, there was no snow forecasted at all.

I do have a lot of respect for the NWS. I am amazed at what these people do. They look at the data at their disposal, and the variables at play, and I'm sure they acknowledge that some things could change causing the weather to be different than what was forecast.

What am I getting to here? I am concerned about the ripple effects that can happen when supply chain managers, either at wholesale distributors or suppliers, rely solely on the belief that the key to customer delivery and inventory optimization lies in demand forecasting. This is something I've often written about.

While the weather people don't know for sure if a snow storm will hit tomorrow, supply chain people sometimes can delude themselves into thinking that either salespeople or some newfangled variation on regression analysis can accurately predict the quantity of each widget customers will order in any given week and a couple of months out into the future.

Regardless of what a product's demand pattern looks like, demand could still average, let's say, 50 units per week. The variability in the rates of demand is what makes them look like two completely different things. So, no amount of bashing the sales force, your ERP system or pouring more money into software is going to forecast the next point on the graph with any certainty. So, why think those ugly spikes will be able to be handled with some forecasting algorithm? It's the same problem with forecasting an impending snow storm – it's an anomalous spike on the graph, it can't be done with complete accuracy.

Momentum lost: Are our planning systems fundamentally broken?

Wholesale distributors are in a traditional buy-hold-sell business model and they make money by managing inventory, as they have done for generations. While lean thinking (driving waste out of our processes) has progressed by leaps and bounds over the past years, it still seems to me that when it comes to inventory and supply chain management — and in par-

ticular supplier collaboration — it may have regressed.

Many wholesale distributors and their supply chain partners are still using that old order point/economic order quantity approach, or some variation. Supplier collaboration discussions often seem to be focused on price and rebate discussions. Each party uses its own independent forecast. The wholesale distributor places an order with the supplier. The supplier develops an "order forecast" for its production and capacity planning purposes, in advance of receiving the orders. As a result, the supplier can incur a capacity-order mismatch. I believe that the solutions of the 1990s have just not kept pace with the business needs of today.

That's too bad, because momentum has been lost. The fact is, the only way to achieve excellent rates of delivery and lowest inventory is with a "pull-based" replenishment model as opposed to "push-based." Look at it this way, pull-based is like an elevator that starts when a button is pressed, even if there is only one passenger. Push-based is like an escalator, it attempts to continue to supply regardless of whether there is actual demand, the passenger.

What we know from basic Inventory 101 is that the amount of inventory is a clear function of the degree of variability in demand and lead times, plus safety stocks and order quantity sizes. So, the only way to deliver on time, every time, with minimum inventory, is to reduce the forecast variability, optimize lead times, safety stock and order quantity sizes. In other words, focus on the constraints — the inventory drivers. Inventory levels should be dynamic and based on actual demand and the replenishment lead time. Your supplier should be producing based on actual demand too, not on forecast.

The current paradigm though — the status quo — is a difficult one for both sides to let go of. It requires a change in thinking! And until it changes, both sides will still be reliant on not-always-accurate demand forecasts, broken replenishment processes and old ways of collaborating. Instead, we should get supply chain managers back in the game at both the wholesale-distributor and supplier level.

A demand-driven supply chain

Cost will always be a driver in supply chain management. If any Lean concepts are adopted, it should be the

elimination of waste. But, we have traditionally used inventory (cost) to buffer uncertainty. This is no longer sustainable. It costs too much!

Now, consider how demand-driven supply chains could align planning, procurement and replenishment processes to actual demand. Actually transform the traditional supply chain into an integrated multi-tier supply network that eliminates information lag, provides greater visibility and decision support, monitors, alerts and resolves critical supply chain events, and addresses and resolves issues proactively before they become problems. Some key characteristics would be:

- Product movements driven by actual demand
- Real-time demand/supply visibility across the partner tiers
- Inventory managed to dynamic target inventory levels
- Early identification of demand/supply issues
- Single demand signals shared with supply partners — that is, there is one version of the truth.

Question: Can you describe your supply chain using these characteristics?

What's real collaboration?

First, think like this, supply chain management is a form of cash flow management. Second, supply chain management should be a tool that provides a base to build a strategic relationship with your supply chain partners (this is a topic often "off-the-mark"). Third, some questions to

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consider are: What are the tools available to help both wholesale distributors and their supply chain partners transform into smarter partners? Should the desired outcome be higher profits, less complexity and lower total costs of inventory? Do "Point-Of Sale" (POS) technologies have a relevance here?

To compete and thrive in this demand-driven environment, wholesale distributors and their suppliers will have to, I believe, collaborate differently than they have in the past. A number of different wholesale distributors and their supply chain partners are embracing collaborative planning. Right now, it seems to be characterized by Vendor Managed Inventory (VMI)



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solutions that promote and foster the sharing of shipment data.

Although, results-to-date seem to indicate that VMI has resulted in lower inventories and better service levels, the jury is still out on whether it is actually providing shortened cycle times, is sufficiently focused on the "constraints," creating profitable inventory flow strategies, or reducing the total costs of inventory. Unfortunately, VMI seems to be executed by one wholesale distributor/supplier at a time, resulting in isolated information silos. In other words, local optimization is occurring and it's kind of like everyone is on their own.

Despite this mixed evaluation, by integrating and leveraging downstream data, I believe POS technology can be scaled to handle the vast amounts of data available and drive better supply chain procurement decisions and increased visibility— as opposed to only using forecasts.

But, there has to be a broader base of participants for the supplier and wholesale distributor to gain advantage. It also introduces two strategic interdependencies as incentives to invest in information acquisition and to share information truthfully. The technology isn't new. In fact, it's right out of the retailer's playbook (No — you're not that much different). The folks at Wal-Mart will tell you it's their "survival kit."

You see, Wal-Mart doesn't consider itself a retail business, but rather a distribution business. Yes, Wal-Mart does, of course, exert quite a bit of power over its suppliers. They pretty much call the shots through huge purchasing power — and they can pretty much tell their suppliers what to do and at what price. But there is, I believe, something for us to learn that could be adopted by other types of distribution companies.

You have sales information and know where and when products are flowing. In fact, I have clients in some vertical markets that are actually compensated handsomely by their suppliers for this data. Switching from push to pull, Wal-Mart no *(Turn to Buying group... page 42.)*

Buying groups provide open forum

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longer sends purchase orders. Suppliers act according to the sales of their products and only see the information pertaining to their products. Wal-Mart's first core competency, being in the distribution business, is their data handling – transforming data into knowledge. By adopting this switch from push to pull, the supplier does not drive the final transaction at the end customer point of contact. The final transaction in the supply chain (the customer) is the most important, and we can learn from this to shape the start and the middle of the supply chain (just where you are as a wholesale-distributor).

Connecting through collaboration?

Typically, a supplier's demand forecasts are based on their own historical record of shipments (the wholesale-distributor's purchase orders) versus actual end-user demand at the point of actual purchase (the customer). Wholesale-distributor purchase order quantities often include the "whip saw" effects of demand variation such as safety stock maintenance and economic order quantities. This distorts the actual demand incurred at the wholesale-distributor level. The disconnection of true demand from the procurement quantity can ultimately misrepresent the production planning and capacity needs of the supplier to maintain an adequate available supply.

POS changes the paradigm to integrate real customer demand and designs forecasts based on actual sales. If suppliers could tap POS data, a pure form of demand, directly from the wholesale distributor, then there would be improved synchronization of supply and demand. Suppliers would see more consistent demand

patterns, allowing them to develop more effective production and inventory plans. This would better balance the variations that come from using shipment data alone. This, then, becomes the "best forecast," operating from a "common view" and creating more accurate demand signals up and through the entire supply chain while providing greater visibility into the wholesale distributor's total supply chain inventory. Demand signals what would be sensed and responded

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to throughout the supply chain and could be synchronized both for planning and execution. Plans would not be created and consumed in isolation. Transactional systems would not just hum along with little, to no, guided intelligence. Speed of flow of relevant information and materials would become a critical success factor.

Collaboration is growth. Play nice!

Wholesale-distributor and supplier relationships are a perennial subject of discussion. Whether at trade conventions/shows or at each other's offices, the topic engenders discussions about the relationship. Clearly, distributors and suppliers have common ground. Their relationships must be based on mutual trust, they have to be honest in their conversations and both have to grow. After all is said and done though, the relationship needs to be more than a fancy trade show and a hospitality suite.

The proverbial phrase "win-win," describing relationship agreements or

understandings, is admirable but is, in reality, hard to achieve. Distributors choose their best suppliers to create the best customer offerings. Suppliers want to build a distribution channel. But what comes after? At some level, it's all about money and the phrase "channel partner" can often become just a nice charming phrase.

A pull supply chain relationship utilizing POS data has real benefits for each side, beyond the price and/or rebate discussion, as it can meet some definitive relationship criteria:

- Sharing of real demand information (trust)
- Effective communication processes
- An opportunity for continued growth, including growth in the relationship.

I believe that most suppliers would appreciate better methods to gain visibility or a sense of what the customer is buying with more real time to get as close to the customer as possible. POS data is a way to do this.

A growing use of POS data could help both suppliers and wholesale-distributors to take a giant step forward in becoming demand driven rather than being encumbered by distorting elements such as batch order sizes, safety stocks and lead times. The granularity of the data creates a very clear picture for suppliers and one that is not based on their forecasts or their compulsion to stuff (push) their channels.

What's the role of buying groups and cooperatives?

If you are a buying group member, will your buying group support this type of strategy? The benefits to both wholesale-distributor and supplier are really in the number of members participating in supplying POS data to any one supplier. This increases size

and bargaining power. Even smaller members can adopt and benefit. The supplier gains the benefit of a total picture, not just from some members providing some POS data.

To me, it seems logical that more and more wholesale-distributors and suppliers will benefit from acknowledging a demand signal to:

- Optimize inventories
- Increase supply chain visibility
- Reduce stock-outs
- Lower costs
- Improve production and capacity planning
- Improve customer service
- Boost revenue and profitability.

Final notes:

Data is important, although ultimately it is only a piece of the puzzle. Wholesale-distributors and suppliers will need to rethink their business processes, organization, systems and terms of trade in order to effectively manage the acquisition of and the leveraging of downstream data. Organizations that take the lead in transforming this data into usable information will use it collaboratively across functional units, rather than continue to use it only to optimize their own situation. In other words, they will continue to foster those closed and isolated silos. Companies that collaboratively manage their supply chains will gain a real operational advantage.

What are your thoughts? Your robust debate is encouraged! ■

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