

In the US, the principles of ECR are being aggressively applied by VICS, the Voluntary Inter-industry Commerce Standards group. And the secret of its success? A ruthless focus on practical implementation

An interview with VICS Chairman, Ron Griffin

INTERVIEW

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The ECR movement originated in the US, but it has evolved in different ways on the two sides of the Atlantic. Ron Griffin, who is senior vice president, information services at The Home Depot as well as chairman of the Voluntary Inter-industry Commerce Standards group, explains why and looks forward to a new era of global co-operation.

Tell us about VICS.

VICS is the Voluntary Inter-industry Commerce Standards group. Its purpose is to allow commerce, by encouraging the

identification, development and implementation of voluntary standards, protocols, guidelines – or any other mechanisms we can think of – that, when properly utilised, lead to better anticipation of and reaction to changes in consumer demand. We're trying to get the right brands to consumers as quickly, cheaply and as accurately as possible.

What is the view of the American community towards the Global Commerce Initiative?

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The ideal is to make initiatives global in scope

We are very excited with the Global Commerce Initiative. Take the Global Scorecard. Rather than VICS in the US having to create its own scorecard, we were able to provide some input back to the core group within ECR Europe, and that way we effectively globalised the scorecard. It is blending a lot of the practices around the world together, so we can make major initiatives truly global in scope. But in my estimation, we haven't done a sufficient job publicising it. We all want to normalise the processes and approaches that facilitate global commerce, so that companies can conduct business in one way around the globe.

How can smaller companies benefit from VICS and the Global Commerce Initiative?

We endorse only open standards, and once these standards are established, manufacturers can incorporate them into their standard products and offerings. So these things become readily available, not just for large players but for anyone in the market. The major players are the ones who invest the resources to participate in the working committees, but the output of those committees is actually shared with smaller organisations.

Let's go back to CPFR. What exactly is CPFR?

CPFR (Collaborative Planning, Forecasting and Replenishment) was a

trademark initiative spawned by VICS some years ago to help minimise out-of-stocks by synchronising forecasting and planning between retailers and manufacturers. It is like American football, where we first call all the team in a huddle so everyone knows the play, and then execute. CPFR is about getting a supplier, a retailer, a demand-side person and a supply-side person, and even transportation carriers planning together to be much more efficient in execution.

In the ECR Europe Advisory Groups, we asked leading companies if they had actually implemented CPFR. Not many raised their hands. They said it was quite complicated. Do you see a great future for such a system if, after a couple of years, it still hasn't been implemented?

Yes I do. It's actually not very complicated. With any major initiative, you start with pilot studies which communicate the magnitude of business benefit. You then see the adopters gaining a competitive advantage. After that you see much more rapid and aggressive adoption. I think we are still very early on in that process. The Y2K phenomenon probably slowed some progress. So did the Internet. It meant there were a lot of major initiatives on the agenda and, unfortunately, CPFR did not always make it to the top of the list. But now there is an enormous amount of energy around the whole collaborative supply chain

CPFR is about making a plan – and executing it

But it's still early days

“As long as you are sharing information and working together, you are going to be much more efficient and effective in total”

management and it will, I think, ultimately end up seeing more momentum. As people begin to tackle supply chain practices end-to-end, it becomes pretty clear that CPFR is one of the major areas for opportunity. If we all do a better job of forecasting, the manufacturers can plan smooth production schedules. You can flow things up and down the whole supply chain in a planned way as opposed to always reacting. I think you will see there will be many efficiencies that will accrue. For example, when a big retailer decides to run a promotion on something, then it doesn't create a vortex sucking all of that product out of the supply chain.

If you had to convince a management board of the need for CPFR, in one or two sentences, what would you tell them?

I would tell them that if they could get CPFR going, it would pull cost and inventory out of the supply chain, and hopefully end up driving sales and total higher because there would be fewer stock outs in the process.

How can we link concepts which have been developed in Europe – such as transport optimisation or unit load identification – with concepts that have developed via CPFR?

The nice thing about CPFR is that it provides a tool for doing a lot of it electronically. Passing data back and

forth, going from system to system, eliminates a lot of the inherent delays and mistakes that get made. As long as you are sharing information and working together, you are going to be much more efficient and effective in total.

I often hear it said that ECR isn't really in good shape in the US any more. What's your view on that?

I think members of ECR in the US were also members of other organisations – such as VICS or the National Retail Federation, or the American Hardware Manufacturers' Association – and these other avenues tended to be a bit stronger, and in some cases, more relevant. For example, VICS was working hard to get EDI standards put in place in the States. And the major players in retail and manufacturing said, “This is great, this is exactly what we need”, and they all moved aggressively towards adoption. Another example is floor-ready merchandise in the soft goods industry. Instead of having multiple handling and taking merchandise off old hangers and putting it on new ones, everyone got together and said, “Look, if we do this once it pulls waste out of the system. This means we have to agree on clear plastic hangers and here are the specs for each of those”.

Is it fair to say ECR America focused too much on the supply side, and forgot about the demand side?

The concepts of ECR are being widely applied, pragmatically. We are putting it into practice

From my own personal observations it felt very much like it was supplier driven. It's kind of like, "Hey, we all want to go to the dance but we can't find any girls who are willing to go with us".

But the girls did come to VICS?

Yes.

You said VICS was successful because it focused on implementation – on practical solutions being applied by people at the operational level. On the other hand, one of the reasons for ECR Europe's success seems to be that it has been strongly supported by CEOs. Is there a difference in culture, or what?

It is a good observation. In the States we've had a much harder time attracting the same level of participants as in Europe. But on the other hand, the concepts of ECR are being widely applied, pragmatically. We are putting it into practice.

Is that true for all aspects, demand side and supply side?

You have to look at it on an initiative-by-initiative basis. For example, global scorecards, which provide a sort of a road map for the practices you have in your organisation, seem to be more popular in Europe than in the States. In VICS we want to get much more tactical, to focus on key performance indicators including fill rates and lead times. We want to go beyond just

the, "You are practising category management?" or "Are you doing EDI?" That's why I think it's great that we have the Global Commerce Initiative (GCI). That's blending a lot of the practices around the world together, so we can make major initiatives truly global in scope.

How has Home Depot benefited from ECR?

Home Depot has been a very strong proponent of most of the VICS concepts, though not necessarily ECR, per se. For example, we were one of the most rapid adopters of EDI. By 1992, we had 70 to 80 per cent penetration across all our suppliers. And this wasn't just a matter of saying, "Ship a purchase order across electronically and have somebody else pull it off of a fax and key it in". That's not EDI to us. It's where it goes from machine to machine and speeds up the process and eliminates mistakes. As a result we have reduced our average lead time from 11 or 12 days to two or three days. Another example is accuracy. About 85 per cent of our merchandise is delivered direct to store, so accuracy is very, very important. One way we measure accuracy is by the number of invoices and receipts that match. It is not 100 per cent yet, but it is approaching 100 per cent.

When Home Depot started with these concepts, was there a sudden moment of insight where you said, "Yes! That's the road to go!" Or did it just happen?

Average lead times are down from 11 to two days

ECR in the US was too supplier-driven

But with VICS retailers are joining the party

“We put the first pilots in and saw savings. After that, we moved very aggressively”

Internally, we could see we were spending way too much money. Lead times were too long for us to be able to respond to stay in stock. And our accounts-payable organisation was growing at such a rapid rate we were going to have to hire every person in Atlanta. Something has got to give. So we put the first pilots in, and saw that yes, we did get savings. Then we began to move very aggressively towards penetration. We still did not sign up 100 per cent of all vendors. It's hard to put UPC codes on sand. But we did help introduce UPC codes into the home-improvement industry.

What about category management in Home Depot?

We are unusual in that we already vary our assortments on a market-by-market basis, in many cases store-by-store. In the US, we have very diverse geography and the building materials preferences of one part of the country are different from others. So while our average store has 45-50,000 unique items, I've got about 400,000 items in the master file. We have developed systems internally which allow us to analyse and vary the assortments in this way. But what we are not doing yet, is collating the demand forecasts from all of our 1,170 stores and giving them to the vendor. And stores' ordering frequency has not always been synchronised. You know, we don't yet order all Black and Decker on Tuesday, and all Stanley on Wednesday.

It is interesting to hear you say you aren't really doing something like category management. Why aren't you leveraging on your suppliers' knowledge about the consumer?

I think we do. A lot of the input on how to approach market-by-market assortment comes from our vendors. They suggest that, “In this market, we believe this will sell better and we would be better off adjusting the mix this way”. And we're developing a system to work collaboratively with manufacturers' reps, a lot of whom are out in our stores. They know typically what we're buying, but they don't always know what we're selling, even though we have been sending our major suppliers point-of-sale data via EDI. What we don't have yet is the correlation between the people who are in our stores, the sales and inventory position, and the product knowledge training they help to provide to our staff. So we are creating an application that will marry up sales and inventory information for their products and the time that they were in our store. That creates a sort of a productivity report which will help us drive greater effectiveness.

When talking to analysts, do they care about what you are doing with the ECR or VICS?

They couldn't care less about the acronyms. But when I talk about what we're doing to shorten cycle time, pull

Progress is significant. But there is a lot more to do

“Some people thought regular retailing with regular stores was a dinosaur. They have been proven wrong”

inventory out of the supply chain, eliminate general and administrative expenses, stay in stock better, and drive sales higher, then they get really excited, and they want to know more.

What's the feeling in America currently about e-business and developments such as B2B market places?

Some people thought regular retailing with regular stores was a dinosaur. They have been proven wrong. Shopping is a social experience, and people frequently want to touch, feel and see and compare products. A percentage of products are amenable to selling over the Internet – certain services and commodity items, such as office supplies. We will see quite a bit of reverse auctioning for your MRO supplies (maintenance, repair and operating supplies), for example. And there are always opportunities where you are shipping transactions back and forth, placing orders, getting acknowledgements for those orders, getting advanced shipment notices, and so on. Last year I saw a fantastic figure. Still, across all US industries, there's only about 15 per cent penetration of EDI. So there is still a huge opportunity out there.

Does Home Depot have extranets?

Yes we do. One of our earlier applications is our core carrier programme. We have various preferred freight carriers in certain parts of the

country, and they have standing reservations for delivery slots in the back door of our stores. If manufacturers use those core carriers, they generally get preferential rates and a guaranteed delivery slot. If you don't have a guaranteed delivery slot you have a sort of spot market for delivery opportunities. So what we've done is make information about core carrier available over the extranet. So for a given shipment to a given store, they know who to ship by. That way we don't have anyone from Home Depot involved. The information is available for them to make processes more efficient.

What about big business-to-business market places such as the Worldwide Retail Exchange or GlobalNetExchange?

Well, I think they are going to provide a particularly valuable service, especially in Europe, where the penetration of electronic commerce isn't as high as in the US. But in the States, most of the major players have invested a lot in EDI. They now have very low-cost EDI networks, and I don't think exchange processes will displace them. Incremental business might come in over the Internet, but not pre-existing business.

So the e-hype is over.

There will be other things they can take advantage of. Earlier on, the WRE was not looking at doing reverse auctioning, but

B2B exchanges won't replace EDI networks

E-shopping has its drawbacks...

...and its opportunities

“An 80 per cent plan that gets executed is much better than a 100 per cent plan that sits on the shelf”

now it realises that this form of auctioning is a value proposition for our membership. And the Global Commerce Initiative board met with the CEOs of each of the major exchanges and said it would like to offer members CPFR, rather than each company having to make the investment itself. So there is some chance to add value. But can the exchanges get to critical mass quickly enough? And can they be a low enough cost provider, so that their membership is willing to hang in there, rather than going off and doing it cheaper for themselves?

If competitors are all sitting on the board of the same exchange, how can they gain competitive edge from it?

By driving cost out of the whole system, you can shift the demand curve and make the whole market bigger for everyone. Also, you know what? Everyone can have a hammer, but some people build very good houses and some people build houses that fall down. Execution is the name of the game in retail.

Are you surprised that retailers, including Peapod, Webvan and Amazon are currently experiencing problems?

No. Absolutely not. I predicted it. You have to look at the value propositions and what is a sustainable business model. If you're going to be a low-cost player, you have to be participating in EDI. You can't have somebody keying in every order, you

know, keying in every invoice that comes from your suppliers or having to manually order products. It's really, "Show me the money". If you have a model that subsidises every sale that you make, at some point the money is going to run out!

So what would be your key message to the ECR community in Glasgow?

First, we need to continue to focus on global solutions so there is one solution that can be deployed by multi-national corporations around the globe. Second, we need to focus on value. Pull the case studies together and show hard dollar benefits. Here in the States we call it WIIFM, the "What's in it for me" factor. So you've got to sell the benefits, and make sure it is truly collaborative with partners on both sides. Finally, no matter how good the concept, without adoption you are just wasting time and energy. So in terms of how you approach things, focus on what will it take to get things done – things that can be adopted and put into practice. Remember the old saying? An 80 per cent plan that gets executed is much better than a 100 per cent plan that sits on the shelf. So let's nail it and get it done.