Of Pizza & Planning

A Philosophic Approach to Supply Chains

It's homemade pizza night at your house! Your dough is rising. Your oven is heating. The spicy marinara sauce your college roommate taught you how to make is simmering on the stove. And it's a really bad time to run out of your favorite imported mozzarella cheese – Luigi's of Roma. What happened? You were certain you had a pound of Luigi's in the fridge!

Undaunted, you hop into your car and drive to the grocery store. In addition to the mozzarella, you need a few household items such as toothpaste, paper towels, and a six-pack of diet cola. May as well pick them up at the same time, right?

Unfortunately, after you find the other items, you discover that the store is out of Luigi's. In fact, there is no mozzarella on the shelf – only American, Swiss, and cheddar. How can this be?! Frustrated, you abandon your cart mid-aisle and race to another store – one that, hopefully, has your preferred mozzarella in stock.

On the way there you promise yourself: If you are forced to substitute domestic mozzarella or, worse, cheddar, you may never forgive your grocer for the indignity. In fact, if you're like many consumers, you may decide to take your business elsewhere.

Out-of-stocks keep retailers and suppliers awake at night, and send empty-handed customers scrambling toward store exits. Of course, in the world of consumer products more can go wrong than running out – *over*estimating demand, *under*estimating shrink, or dealing with labor issues, for example. But when it comes to keeping customers happy and bottom lines fat, nothing is as potentially disastrous as an out-of-stock. According to the Grocery Manufacturers of America, out-of-stocks cost retailers and manufacturers more than $6 billion in retail sales each year. What's more, the GMA claims that more than 7% of the time, that tub of Luigi's isn't on the store shelf, causing 40% of shoppers either to abandon their shopping carts or shop elsewhere. That's a lot of lost sales.

A first-of-its kind national study commissioned by Park City Group looked at Beeline Products – items such as milk, bread, toilet paper, and coffee that consumers will rush to the store to replenish the minute they run out. According to the study, if consumers don't find a Beeline Product on the shelf, nearly half (49%) say they will try a different store the next time. In other words, retailers are at risk of losing half of their customers to out-of-stocks alone! When that happens, suppliers lose sales and may not be assured they will get them in another retail location. One unsuccessful shopping trip can have even the most loyal consumers making a Beeline to the competition.

Park City Group is the only company to serve both suppliers and retailers by coupling supply-chain

planning solutions with retail programs to drive results at the store shelf. The process begins not with a technologic solution, but with a philosophic question: Where does a supply chain begin and end? Ask a manufacturer and you'll get one answer. Ask a retailer and you'll get another. Ask a customer and you may get yet another. Does Luigi's supply chain begin in a kitchen in Italy? Does it begin in the warehouse? In a cargo hold? A delivery truck? A loading dock? And where does it end? Your refrigerator? Your pizza? Your stomach?

At Park City Group, we believe there is one place where consumer demand, supplier products, and retailer strategies converge: *the store shelf*.

The consumer products industry is marked by a strong relationship between retailers, suppliers, and consumers. And that relationship converges at the store shelf. Park City Group provides an end-to-end set of solutions for retailers and suppliers that translates consumer insight into better execution at the store shelf by capturing scan sales data, improving forecast accuracy, and increasing supply chain efficiencies. When things go well at the store shelf, the consumer, supplier, and retailer all walk away happy. While Park City Group helps retailers and suppliers move their products through factories, warehouses, delivery trucks, and ultimately to your cheese bin, the best intelligence to predict future sales and appropriate stock levels comes from what can be learned at the store shelf.

We don't tell retailers what to sell. We don't tell manufacturers what to make. And we don't tell consumers what to buy. Instead, we help all three walk away from the store shelf happy by providing trading partners with an extensive set of collaborative tools to understand and plan for consumer demand.

THE BETTER TO SEE WITH

Because the supply chain begins and ends at the store shelf, it is critical to connect the dots between point-of-sale data and the activities of manufacturers and distributors. Combined with traditional supply-chain intelligence, consumer data collected at the point of sale optimizes lead times, ensures product availability, and maximizes profit margins.

Increased visibility into point-of-sale data helps retailers and suppliers power every aspect of the supply chain efficiently. From this vantage point, retailers can see potential out-of-stocks. And when they share

this data with suppliers, the information can be used to monitor production, delivery, and inventory levels; or to change practices so products arrive on store shelves in the right amount at the right time. The key factor for a successful working relationship is the ability to take retailer data, including point-of-sale and forecast information, and make it actionable.

For example, Well's Dairy, the nation's largest family-owned dairy processor (makers of Blue Bunny Ice Cream), uses point-of-sale data to view the movement of its products in and out of distribution centers; to determine whether products are trending up or down in sales; and to assess which stores are most profitable. And to ensure that it can meet Wal-Mart's demands, the dairy adopted virtual VMI. Well's Dairy takes the distribution center-level intelligence from RetailLink, integrates it with its Park City Group system, and generates a replenishment plan as if it were doing VMI, even though Wal-Mart generates the actual replenishment order. The system generates suggested orders, which are used to drive the volume and sequence of Well's Dairy's manufacturing lines.

Taking data management a step further, a leading consumer healthcare products provider imports Wal-Mart's point-of-sale data into its Park City Group system to generate a more accurate, proactive forecast. It loads the forecast back into RetailLink, where both companies can view data and address exceptions. Many suppliers have thousands of store-level items at Wal-Mart. Because it's impossible to manage each item, one consumer product giant uses Park City Group to highlight exceptions. Discrepancies falling outside of agreed-upon tolerances are shared with the Wal-Mart buyer for consideration and remedy.

Jack Link's Beef Jerky, the premier U.S. meat snack brand, selected Park City Group's Demand Planning solutions to increase demand visibility, improve forecast accuracy, reduce out-of-stocks, improve customer service levels, and allow for more efficient use of customer data. It integrated retail point-of-sale data from Wal-Mart's RetailLink® into the Park City Group system, and used the POS information to drive retail forecasts.

A DEMAND-DRIVEN ENTERPRISE

While many suppliers work with Wal-Mart, not all do. Whoever your Wal-Mart is – whichever store shelf you are aiming for – Park City Group can help you get your product there through increased visibility into demand. For suppliers, a demand-driven enterprise can cut inventory by 15%, improve order

performance by 17%, and reduce the cash-to-cash cycle by up to 35%. Based on our experience, manufacturers who apply a continuum of supply chain planning solutions see an average improvement of 10% in revenues and 5%-7% in profitability.

Take Tropicana, for instance – the third biggest-selling brand in grocery stores today, accounting for about 25% of all orange juice sold in the U.S. With highly perishable product and sales volume that varied over the week, Tropicana analysts couldn't simply forecast on a weekly basis and then divide evenly. They needed to understand the forecast on a daily basis. They had to know when 30% of the product should go on Thursday and 40% on Friday. Getting the forecast wrong cost Tropicana an additional 50 cents per case. That's why its planners today use sales data and input from Marketing and Finance to gain a deeper understanding of demand and to improve forecast accuracy at the product group level. Park City Group gives Tropicana users multiple views of data, based on their needs; and it lets Tropicana planners base their work on user-defined exceptions.

ADDING VALUE THROUGH COLLABORATION

Not only is shelf space at the epicenter of this "replenish or perish" world; if you want to watch how merchandise moves, it's the best seat in the house. That's why large chains like Ahold use Park City Group's Store Level Replenishment. SLP gives visibility to store-level movement; it replenishes orders for the store automatically based on what's happening at the store shelf. Of Another way suppliers ensure their product gets to the store shelves is through vendor-managed inventory (VMI), where, typically, the supplier is responsible for maintaining its retail partners' inventory levels based on retailer-supplied demand data. VMI replenishes not at the store shelf, but at the warehouse. It provides significant benefits to suppliers, including visibility into retailer item activity data, which results in increased sales (100% or more in some categories), a 50% reduction in lead time, 20%–70% reduction in inventory, and in-stock improvements of 1%-2%. In fact, when fruit juice maker Sunny Delight was squeezed for time it turned to Park City Group, which offers an end-to-end VMI solution, from hosting the software to outsourcing analyst services. The time saved on implementation, staffing requirements, and training allowed Sunny D to get its VMI program running in just eight weeks. And the results came just as quickly … within two months of going live, a Park City Group-supplied Sunny D VMI analyst was named one of the top three replenishment planners serving HEB.

Park City Group VMI Analyst Services offers end-to-end VMI services, from on demand software to seasoned, world-class VMI. In addition to best-practices consulting, Park City Group Analyst Services manages clients'

forecasts, maintains forecast and inventory parameters set by trading partners, interfaces with trading partners as needed around new items and promotions, and maintains service levels and days of supply to trading partners' target metrics.

Balancing Supply and Demand

But even the most accurate forecast is virtually ineffective if you can't make it and get it out the door when it was promised. Park City Group's Line Sequencing focuses on the most pressing business issue a consumer products manufacturer has today – the final packaging lines. Park City Group gives clients the visibility they need to increase asset utilization, minimize downtime, and ensure on-time delivery of their products. Park City Group's Line Sequencing solution works with the client's ERP system, combining master data with the latest forecasts, customer orders, on-hand inventories and planned receipts to generate production plans and Master Production Schedules. The system also shares information and knowledge across the enterprise, quickly identifies issues, and allows users to explore and compare alternative scenarios to make informed business decisions. With Line Sequencing, clients effectively manage the many constraints of production in ways that meet their cost containment and customer service goals.

STUCK IN THE MIDDLE WITH YOU

Of course, not all suppliers are manufacturers. Today, there are many who use domestic contract manufacturers such as co-packers; while others outsource their entire manufacturing process globally. This is especially challenging when you are the brand name and must rely on others to produce your product.

For example, Churchill China, Ltd., a supplier of earthenware and bone china to major retail outlets, outsources most of its manufacturing. Churchill uses Park City Group Sales Forecasting and Advanced Replenishment Planning to increase forecast accuracy and apply intelligence to product development before new products even enter the design phase. More accurate forecasts mean better relationships with its suppliers – and better prices for products than the retailers could get on their own.

Using Park City Group, Churchill gathers and analyzes point-of-sale data, which allows greater visibility into consumer demand, enabling Churchill to be better prepared for next year's trends while getting the best deals from suppliers and keeping inventory levels low. This goes directly to the retailer's bottom line, making Churchill a valuable trading partner in the eyes of its retailers.

MEANWHILE, BACK AT THE DISTRIBUTION CENTER

Overstocked warehouses and inefficient delivery practices plague retailers and suppliers alike. Park City Group's inventory replenishment helps suppliers comply with retail trading partners' rules by analyzing the benefits of various inventory strategies and using point-of-sale data to improve inventory levels and shipping practices.

A notable example is Domino's Pizza Distribution. Because Domino's delivers only to Domino's stores, it is both supplier *and* retailer. That means efficiencies gained anywhere in the supply chain – from better labor and pallet utilization in the warehouse to optimized deliveries – go directly to the Domino's bottom line. Domino's needed the ability to stagger inventory receipts. For example, the average distribution center received five truckloads of cheese per week. But because of space constraints and shelf life, the center wanted just one truckload a day for five days – just one order, but spread over five shipments to preserve freshness. Because some products have a 14-day shelf life, the difference between a Monday and a Thursday ship can be big. Park City Group's Advanced Replenishment Planning allows Domino's to stagger its inventory receipts while still placing one weekly order, which has helped the company maximize its overall supply chain efficiency.

SCAN BASED TRADING: THERE'S MORE THEN ONE WAY TO STOCK A SHELF

As competition continues to put the squeeze on and margins get smaller and smaller, retailers and suppliers alike are looking for innovative ways to cut costs and increase profitability. Scan based trading (SBT) is just one way in which trading partners can collaborate to shave off excess supply chain costs: the reliance on scan sales data as the single version of the truth results in fewer out of stocks, fewer unsaleables and less shrink. According to a recent Kurt Salmon study, companies participating in SBT have seen dramatic results: Increased sales; fewer deductions and payment discrepancies; and reduced inventory. SBT also creates a "no risk" scenario for new product introductions – the supplier gets more

products on the shelf, the consumer has a better shopping experience, and the retailer pays only for what scans out at the point of sale.

WHO'S MINDING THE BACK OF THE STORE

Dreyer's Grand Ice Cream needed to find a more efficient way of getting product to the shelf. The company faced a big delivery-related hurdle: Most of their retail trading partners imposed a restrictive schedule for receiving products. For instance, a major supermarket chain would accept deliveries only from 6:00 a.m. until 10:00 a.m. If Dreyer's couldn't make that window, it couldn't deliver that day. With such a receiving process, lines of trucks formed; and with only one person receiving goods and processing shipments, it took about an hour to deliver to the average account – until Dreyer's took notice of Park City Group's SBT solution, which provides joint visibility into commerce-level data – including item, price, and promotions.

This means Dreyer's can track sales, deliveries, item movement, inventory status, and shrink. They were able to gain a leading edge through clean and accurate point-of-sale intelligence. The data forms the foundation of the trading partner relationship, allowing Dreyer's to deliver whenever it wants. There is no formal check-in required; no waiting in line.

Retailers are also using SBT to lower operating expenses by reducing back room inefficiencies and eliminating invoice discrepancies. Ahold USA, a retail food conglomerate, uses Park City Group's SBT solution to help reduce "non-value activities" in the back room and focus on sales. Ahold recognizes that this type of advanced commerce – data sharing and collaborative planning – is where the retail industry is heading because of the benefits to both retailers and suppliers.

Another major retail chain implemented Park City Group's SBT primarily to reduce payroll through fewer labor hours in the back room. The retailer estimates that by the end of 2005, the chain will reduce receiving hours by four hours per store, per week. These reduced hours could shrink the annual payroll budget by over $4 million.

FROM WAREHOUSE TO STORE SHELF

Although scan based trading has its roots in direct store delivery products, warehouse products are

easily adapted to this process, especially items with a constant flow. That said, retailers are starting to look at SBT *at the warehouse level* as a way streamlining operations, lowering inventory, and keeping everyone focused on serving the consumer at the store shelf – faster and less expensively. Since undertaking warehouse SBT, one retailer we know has seen sales increases of 5%.

TECHNOLOGY THAT HELPS WITH DECISION MAKING

Park City Group's Visibility and Analytics (V&A) provides intelligence that analyzes data so manufacturers, suppliers, and retailers can make informed and accurate business decisions. Using V&A, trading partners can look at onscreen reports or graphs, or export the data into excel or PDF format. They can drill down within reports using hotlinks. And they can view reports by store size, geography, supplier, brand, product code, SKU, and more. V&A identifies stores and suppliers with unsettled shrink. It tells which retailer has the highest shrink; which items are the greatest contributors to shrink within each retailer; how to reduce shrink share; and how much shrink this period versus last.

YES, WE HAVE THAT!

From hosted software to business process outsourcing to sales and operations planning, Park City Group is constantly researching and developing solutions to help retailers and suppliers get products to the store shelves efficiently, economically, and on time. Park City Group products assure point-of-sale transparency. From the consumer's point of view, it's very simple: On pizza night, when you're having one with everything on it, you can find a tub of Luigi's of Roma on your grocery store shelf. You needn't give any thought to how it got there. For the retailer and supplier, it's simple too: Fewer out-of-stocks mean fewer abandoned shopping carts and more sales.

Park City Group has always taken a practical approach to doing business, providing reliable solutions that help our clients do battle in today's competitive retail arena. We offer the only comprehensive and integrated solutions capable of addressing the disparate but interdependent needs of both retailers and suppliers. Our premise- and subscription-based services and solutions enable retail trading partners to capture, manage, share, and utilize complex business process information across the entire supply chain.

A combination of industry knowledge, quality products and services, a commitment to responsiveness, a high level of thought leadership, and a history of rolling out high-ROI solutions that help businesses understand "who knows what and when" across a global enterprise set Park City Group apart from its competitors. In turn, our clients are the innovative leaders in the use of supply-chain planning solutions, beginning and ending at the store shelf – just where you want your Luigi's mozzarella when you need it most.