



AN EXECUTIVE'S PERSPECTIVE: 'WORLD CLASS' VERSUS 'BEST-IN-MARKET' SUPPLY CHAINS

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In her first of three papers following on from the Annual Council of Supply Chain Management Professionals Conference held in Chicago in September 2009, Lisa Brown recounts some of the insights of keynote speaker, Mr Gary Maxwell, Senior Vice President of International Supply Chain for Wal-Mart Stores Inc. Mr Maxwell's presentation examined world class versus best-in-market supply chains.

"A supply chain design that treats inventory as a fixed variable will miss transformational opportunities" - Mr Gary Maxwell, Senior Vice President of International Supply Chain for Wal-Mart Stores Inc.

One of the key themes of the 2009 CSCMP was validating supply chain design. Not surprisingly, particularly in light of the timing of the conference and the Global Financial Crisis (GFC), Mr Maxwell was not the only speaker to address this topic. Many speakers discussed the importance of validating supply chain design as a means to develop efficiencies and achieve cost savings. However, Mr Maxwell's presentation looked at supply chain design in a different light by examining the complex relationship that exists between supply chain design and market maturity. With markets today so diverse, supply chains need to be adaptable and responsive; it is not unusual for a company to be managing multiple supply chains for individual products. With such diversity and complexity come risks and challenges requiring management. In the case of Wal-Mart, these risks and challenges are being overcome by ensuring supply chain design fits the relevant market's maturity curve. In addition to a well grounded understanding of market levers and market maturity Wal-Mart also faces challenges presented by the global marketplace through the empowerment of employees at all levels and a 'bottom up' approach to process (and policy) development and supply chain design.

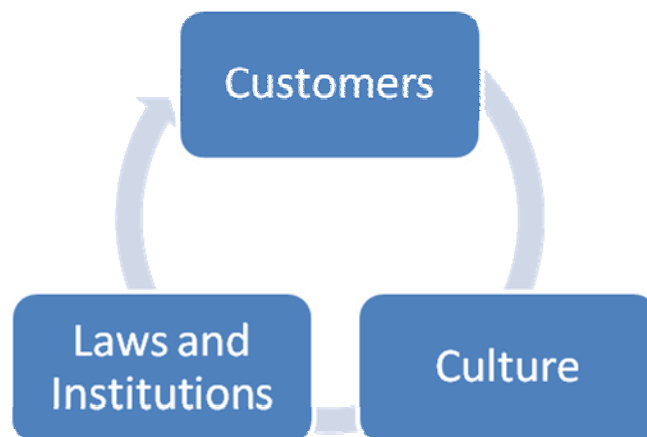
Mr Maxwell set the scene for his presentation by introducing the audience to Wal-Mart's International Division which turns over approximately \$98 billion dollars in annual sales, operates in 15 countries, consists of 7,900 stores and clubs and averages 200 million customers per week. Maxwell went on to explain the Wal-Mart brand where there are 10 different formats of store ranging from small food centres and wholesalers to Wal-Mart superstores – each requiring different distribution networks.

While store format and distribution networks may differ two constants remain in Wal-Mart Inc's overall business strategy: core values (Figure 1) and branding.



FIGURE 1. WALMART INC CORE VALUES/BUSINESS STRATEGY

Maxwell attributed the Wal-Mart brand's world-wide success to universal store branding. This universal branding is one reason why the company's slogan 'saving people money to better live their lives' is so well known. In addition to simple, well understood core values Maxwell confirmed Wal-Mart Inc's commitment to due diligence and compliance (Figure 2). An important feature of this due diligence process is the central role of the customer. Many of Wal-Mart Inc's processes always



start with the customer.

FIGURE 2. WARMART INC DUE DILIGENCE PROCESS

Like many others presenting at the CSCMP Conference, Maxwell stressed the importance of understanding the customer - what they desire, what they can afford, what they are used to, as well as other cultural drivers. He cautioned against starting at the 'back end', particularly in emerging markets, as often the solution derived does not suit either the customer or the environment it is intended for.

Maxwell also went on to describe some of the markets Wal-Mart Inc is currently operating in. He explained market maturity levels can often differ to the extreme based on aspects such as: customer expectations, leadership development, infrastructure, land and labour costs, asset allocation and risks, laws and regulations (among others).

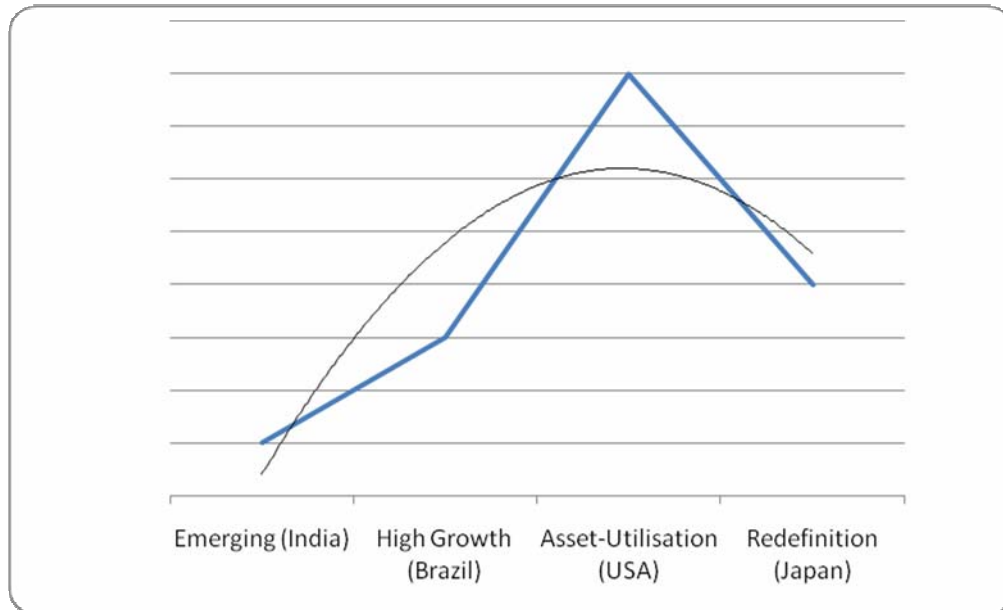


FIGURE 3. MARKET MATURITY LEVELS

Using a graph similar to above (Figure 3), Maxwell classified Wal-Mart's Indian market as 'Emerging', Brazil as 'High Growth', American as 'Asset-Utilisation' (which he later explained as being concerned with return on investment) and Japan as 'Redefinition' (meaning many tiers in the supply chain).

As a result of market maturity levers (outlined earlier), Maxwell stressed the need to balance characteristics such as land and labour versus regulatory environment. For example, in markets where regulatory restrictions (and labour costs) are high, such as the number of kilograms or pounds workers are permitted to lift per day, opportunities to derive a more automated solution may result. Changing the mindset in this particular example was an important point being made by Maxwell; not all restrictions should be seen as an obstacle but rather converted to an opportunity. A high level of regulation often produces opportunities to automate.

Another of Wal-Mart's challenges described by Maxwell was transforming informal markets, particularly those markets with traditional transportation networks, to formal shop places with associated benefits. As already outlined above, in this scenario Maxwell advocated a bottom up approach of understanding the customer first and foremost - what they can afford and what their expectations are. Once customer expectations are known the supply chain can then be designed to match those expectations. Maxwell believes this will often result in best-in-class/market rather than (perhaps) world class supply chains as this is what is right for that particular marketplace at that point in time. According to Maxwell, this is particularly the case in emerging markets such as India.

In Japan, Maxwell advised the opposite of the India situation is occurring. In addition to other cultural levers, customers expectations are extremely high and accordingly different packaging, refrigeration and presentation solutions result when compared to the India market. According to Maxwell, the Japanese environment requires a different supply chain to that currently operating in India. Land is expensive in Japan and labour costs are high, as a result Wal-Mart Inc's distribution centre at Misato, Japan has four floors of production space, a highly automated warehousing solution and a heavy lean to side loading in order to optimise space. According to Maxwell, the Wal-Mart supply chain delivered in the Japan solution is right for the market at the current time. It has the right level of automation and in turn produces a good rate of return commensurate with the investment. This solution would not work, nor be affordable, in many other markets where customer expectations and market levers are different to the Japan experience.

Further to Wal-Mart's commitment to a 'bottom-up' approach, Wal-Mart Inc's goals are set from the bottom up, including during the budgeting process. One of the mantras well known to all Wal-Mart Inc managers is to "beat the P and L" which means to lower the expense to sales ratio. A bottom up approach is key to building best-in-market supply chains according to Maxwell which is why budgeting goals, among others, are set by managers themselves. In order to "beat the P and L" managers are guided by Wal-Mart's Productivity Loop (Figure 4).

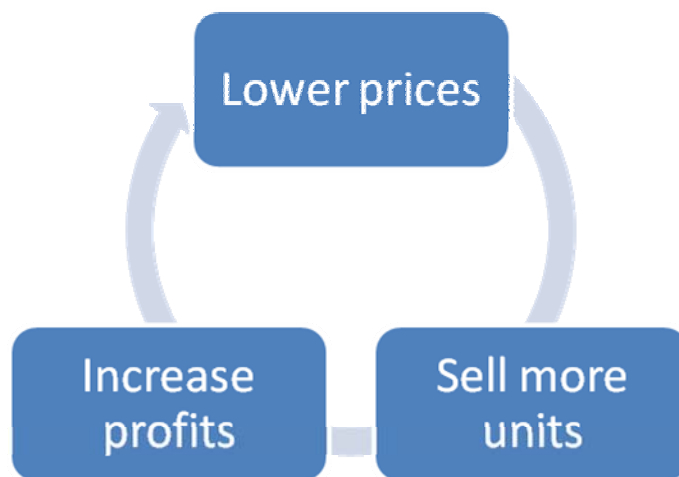


FIGURE 4. WALMART INC PRODUCTIVITY LOOP

In addition to lowering the expense to sales ratio, Wal-Mart Inc Managers are also encouraged to look for innovative ways to carry less inventory. According to Maxwell, "a supply chain design that treats inventory as a fixed variable will miss transformation opportunities". Maxwell, like many other supply chain professionals, believes inventory optimisation is often the "overlooked cost". While Maxwell did not provide a silver bullet solution as to how Wal-Mart overcomes this universal supply chain dilemma, he did admit reducing inventory and achieving inventory balance, takes "takes guts and partnerships". Partnerships (with suppliers and others) were another central theme from the 2009 CSCMP conference.

Finally, one of the other key themes outlined in Maxwell's presentation was Wal-Mart's goal of delivering more sustainable goods and services. One of the ways in which Wal-Mart is achieving this is through their Sustainability Index Initiative, launched by Wal-Mart in Jul 09. The initiative is in response to a growing demand by consumers to possess greater knowledge about the products they are buying.

Accordingly, Wal-Mart Inc is working with the universities, suppliers and other partners to develop and apply a sustainability index to the products they sell.

The Sustainability Index Initiative is a three-phase project:

1. **Supplier Assessment.** In Oct 09, top tier suppliers self-assessed (survey-based assessment) in four key areas including: (1) energy and climate, (2) natural resources, (3) material efficiency and (4) people and community.
2. **Lifecycle Analysis Database.** Wal-Mart and partners collaborated to create a global database of information on the lifecycle of products – tracing the 'chain of custody' from raw materials to disposal.
3. **Application of Indexes to Products.** The final step will involve the application of a rating to each product. The format of this rating is yet to be defined.

The Sustainability Index Initiative aspires to:

1. Inform consumers how the product they are buying will affect the environment once it is consumed.
2. Inform consumers of how/where the product they are buying (including raw materials) was sourced. One of Wal-Mart Inc's partners, Love Earth Jewellery, is already doing this by tracing the 'chain of custody' of the silver and gold it uses for its 'Love Earth' jewellery range. Using the Love Earth website www.loveearthinfo.com and the batch number found on their jewellery item, customers can trace the path of their jewellery from raw materials (mine) to point of sale in Wal-Mart (market).

Further information on Wal-Mart's Sustainability Index Initiative can be found at: <http://walmartstores.com/pressroom/news/9277.aspx>

Mr Maxwell concluded his presentation by asserting best-in-market supply chains trump world class supply chains every time.

What does it take to have a best-in-market supply chain? For Wal-Mart Inc it is to:

- Think like a customer
- Be compliant
- Fit maturity curve
- Set high expectations for low cost
- Be sustainable

"The index will bring about a more transparent supply chain, drive product innovation and, ultimately, provide consumers the information they need to assess the sustainability of products. If we work together we can create a new retail standard for the 21st century" – Mr Mike Duke, President and CEO, Wal-Mart