

Henkel-Eroski CPFR® Pilot Case Study

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Introduction

This case study is one of the first European pilots to follow the CPFR process from start to end parallel to British and Italian experiences. It takes place in Spain between the two companies Henkel and Eroski. Six months after start up in September 1999, the project offered sufficient results to form part of the program of the fifth European ECR congress (22/23 March) in Turino. CPFR is presented as an essential part of the ECR strategy for the integration with electronic commerce. Whereas CPFR is not replacing currently existing Demand Planning concepts, it represents a collaboration process between companies through which the SC participants can put in place the ECR strategy, so that they can collaboratively manage their commercial plans, product categories, promotions, the introduction of new products, and deliveries. The special aspect of the CPFR program developed by Henkel and Eroski lies in the willingness of both companies to harmonise their procedures of co-operation and improved sales forecasting, in order to surmount the current limits of CMI.

Henkel, headquartered in Dusseldorf (Germany), was created in 1876 and accounts today for 57,000 employees (international presence with more than 340 subsidiaries in 70 countries). With an annual growth of 6%, turnover in 1998 reached 11,000 million Euros. Henkel's product range includes more than 10,000 articles such as detergents (Persil, Lacroix, Somat, Bref, etc.), cosmetic products (Schwartzkopf, Brillance, Fa, Blendamet, etc.), hygiene products, chemical products and adhesives (Pattex, Loctite, etc.).

Eroski is food retail industry leader in Spain. The company was founded in 1969 and comprises an integrated net of 44 hypermarkets Eroski and Maxi, 800 Consum supermarkets and 2023 Charter mini-markets. Their main domain is in the Basque country, but they are also present in France with 3 hypermarkets and 17 supermarkets. Their logistics activities are organised from a central warehouse servicing 500 stores. However, a considerable part of their deliveries take place across their regional platforms, as well as through direct deliveries for distant delivery points or for specific product types. The group employs 20,400 people and achieves a turnover of 4,400 million Euros with a growth rate of 87% from 97 to 99 (17% in 99).

Henkel, an active member of ECR Spain (founded in 1995), first aligned their EDI database with their clients before moving on to CMI with 18 of their biggest partners in the Iberian retailing industry, one of them being Eroski. Although they achieved 48% of their deliveries through CMI, the results were not as expected. Out-of-stocks in the hypermarkets revealed major shortcomings – frequent absence on shelves of a number of articles (90% of promotional nature). Customer service was also unsatisfactory at the central warehouse of Eroski, where products were not always delivered on time due to lack of visibility. The two companies decided to unify their attempts in order to improve their sales forecasts – a major driver of commercial and operational planning. The acquisition of the DP module (Manugistics) by Henkel in December 1998 and the change of integrated planning processes in the supply chain were the first steps to put CPFR into place at Henkel and Eroski.

Implementation Process

All phases of the CPFR process have been put into place according to scenario D in which Henkel carries the sole responsibility of providing sales forecasts, calculating

supply and creating orders. In the future, Eroski may take on parts of these tasks, as soon as the collaboration process between Henkel and Eroski is fully in place.

Objectives of the Pilot

Through harmonising the procedures of co-operation and improving therefore the reliability of their sales forecasts, the two partners have set their objectives:

- to improve customer service levels
- to reduce lost sales
- to increase the number of stock turnovers
- to improve punctuality of deliveries
- to reduce the order cycle

Scope

All Henkel detergent category products at Eroski (1998 references) have been part of the project between the central warehouses of both Henkel and Eroski. The data exchanged has been consolidated at national level and comprises:

- outgoing stock (once per day)
- stock figures (once per day)
- events calendar (once every 4 months)
- sales forecasts (every 15 days)
- order forecasts (once per week)
- orders (calculated once per day)

Technology Used

To work out their sales forecasts, Henkel used the Demand Planning module from Manugistics. The key element in the partnership has been the NetWORKS Collaborate module (also from Manugistics). This was used to develop, via the Internet, their business plans, common promotional plans, compare sales forecasts of each partner, exceptions, share sales forecasts and order forecasts, obtain various other information deriving from different workflow (queries to extract information on latest changes in promotions, on results of promotional activities that have just terminated or are still going on, and availability of products compared to planned demand. The data exchange is based on EANCOM standards for all messages INVRPT, ORDERS and INVOIC. No standard has been used to transmit sales forecasts and order forecast.

Performance Indicators & Results

The KPIs defined by Henkel & Eroski are:

- Customer Service level (central warehouse)
- Number of out-of-stocks
- Number of promotions

- Stock rotation
- Reliability of forecasts (common and individual)
- Truck fill
- Pallet fill
- Number of urgent orders

As for results, figure 1 highlights the improving quality of sales forecasts over a period of five months (October – March 2000). The figure represents 100% of the references (weighted according to sales) split over three bands of error measurement (over 50%, between 20 and 50%, under 20%). Most notable is that half of the sales forecasts had an average error of over 50% before the process got started in December 1999. After implementation, 75% of the sales forecasts show an error of less than 20% in the ninth week.

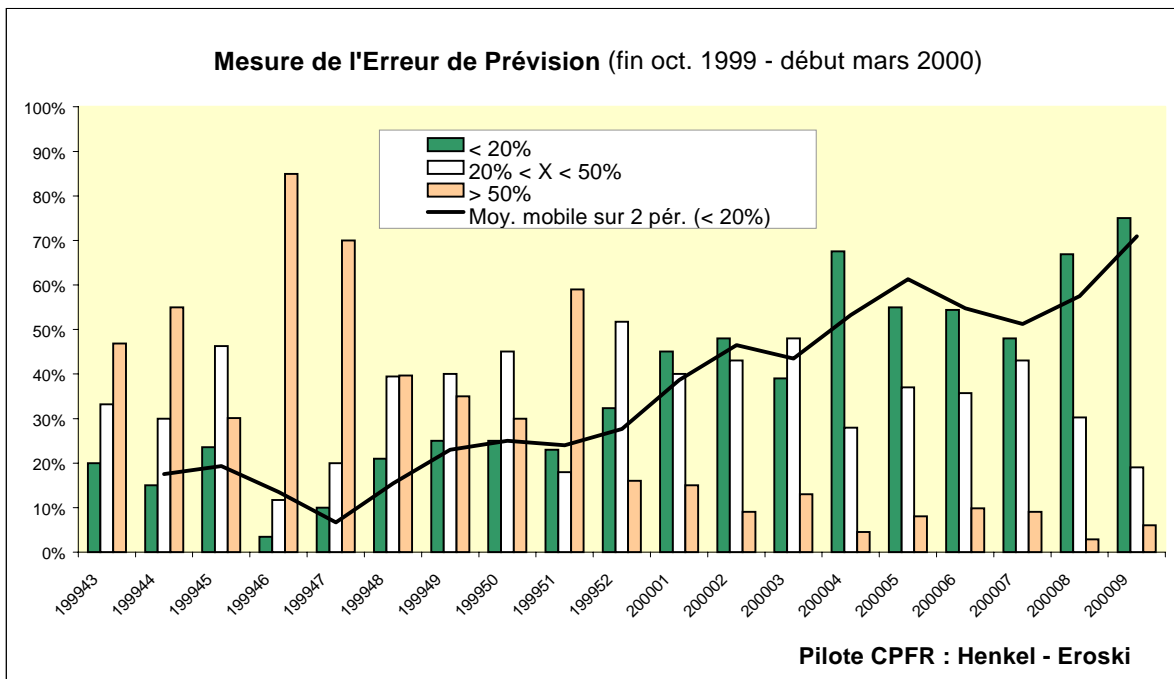


Figure 1- Forecast errors from October 1999 - March 2000.

This highlights that a collaborative approach to sales forecasting, which benefits from the knowledge of both partners, allows them to significantly reduce the level of uncertainty of sales and to improve several KPIs such as:

- Customer Service level: 98%
- Days supply: 5 days
- Out-of stock 2%
- Number of promotions 15-20 references / month
- Reliability of forecasts (common and individual): >85%
- Truck fill 98%

- Pallet fill 99%
- Number of urgent orders 4%

Resources

The multifunctional project teams consisted of five employees at Henkel:

- 1 project leader
- 1 ECR responsible
- 1 KAM Eroski
- 1 DP (Manugistics) expert
- 1 consultant from Manugistics

Four people were involved at Eroski:

- 1 project leader
- 1 forecaster
- 1 supplier
- 1 logistics responsible

In addition, the project relied on support of internal MIS people and the external support of Andersen Consulting to formalise the pilot expansion in the future.

Challenges

To put CPFR into place, it was necessary (contrary to CMI) to involve Customer Service at Henkel, despite the weak propensity of sales people to work in an industry-commerce partnership. Customer service was not used to perform sales forecasting techniques or commercial planning. However, they saw the need to develop a close collaboration with the sales forecaster at Eroski. By doing this, the companies sought to combine their complementary knowledge of the market. Whereas the distributor knows the dynamics of its sales points and the mechanisms of promotions during the same week in the same chain, the manufacturer is an expert in its products and promotions knowing their impacts on standard sales. Henkel's KAM in charge of Eroski was the most knowledgeable about the introduction of promotions, which stores offered the promotion, the percent of implementation depending on the type of shop, substitution products in case of stock outs, etc. It was only natural that this person turned out to be the main responsibility for the collaboration process of sales forecasts. Whereas sales forecasts lay in the hands of the demand planner beforehand in less detail, it was now the customer service team who introduced promotions into sales forecasting, by quantifying the estimated impact. This forecast was then transmitted to their commercial partner in order to add the impact of local activities. The forecasting horizon was 5 weeks (2 weeks frozen for promotions). This has not diminished the role of the demand planner. It was re-orientated versus the synchronisation of demand planning with production planning. With a visibility of 5 weeks, Henkel optimise their operations and gains substantial economies by improving production lines. To improve even further, Henkel hopes to soon extend the horizon to 2 months.

Methodology

The implementation of the CPFR process between Henkel and Eroski followed a clear plan of evolutionary development. After the implementation of the DP and DRP modules from Manugistics in December 1998, the project entered the CPFR phase in Sept 99 –

starting with the central warehouse of Eroski. After the first nine months, the project team had familiarised themselves with the software and at the same time ran the Eroski platform through the CMI process. Since September 1999, all references of the detergent category follow the CPFR process. The establishment of the co-operation agreement consisted in defining their expectations, KPIs, and rules of running the new process (e.g. procedure if error is higher than 20%). While both parties were working on their commercial plans, they planned their promotions and other commercial operations based on history. This step (of setting up the initial agreement) is an essential one to formalise and improve the planning process of operations from one year to the next, without getting any surprises on either side. The CPFR approach does not question the agreed volumes between the two partners. According to Esteban Garriga, Henkel project leader: "The sharing of information at this stage of the process does not represent any difficulties as the two companies know each other well, have a good commercial relationship, plan conjointly their sales volumes and forecast their sales based on past performance."

Both partners calculate the sales forecast every week. However, the exchange of data only takes place every two weeks, originally in the form of excel files, then through the help of NetWORKS Collaborate (since September 1999). As shown in figures 1, the quality of sales forecasts has clearly improved over the first 10 weeks of the test phase, reducing the number of exceptions considerably. The system is useful in signalling when there are unexpected shifts due to sudden optimism of the sales forecaster or potential errors in the positioning of a promotion. The sales forecasts that are collaboratively compared for 1998 references of the detergent category for the central warehouse of Eroski are also used by the demand planner in Henkel to compare them with capacity constraints. The system generates warning messages so that the partners can collaborate in finding a satisfying compromise. Some orders might be taken in advance or delayed, and the sales forecast can be reviewed (first 2 weeks are frozen). The supply program is recalculated every week over a 15-day horizon, compared with capacity constraints and transmitted to Eroski. Planned orders equal firm orders at that point in time which are taken into account into Henkel's planning. The pilot is to be continued until the end of this year in order to improve the process of collaboration, to add new categories, to prepare organisation changes and technical interfaces with the sales points.

Proof of Efficiency

The experience with this pilot has revealed the relevance of the CPFR concept for the collaboration of commercial and operational planning. Where prior to the pilot information on promotions, the introduction of new products, and local activities were not systematically included in the logistical planning process, they are now integrated into one forecast. This forecast is reliable and allows enhanced visibility to the supply chain. Controlled by both partners, the process helps to achieve the objective of increased sales forecast accuracy, improved customer service levels, reduced stock levels and increased sales.

Unexpected Gains and Key Learning

Each company tries to improve their demand reliability in order to improve internal processes and relationships with their clients. CPFR formalises this approach and shows how important it is to enter good quality data into systems. The internal collaboration of

the sales force is a crucial success element. As for the collaboration between the business partners, CPFR helps to increase even more the precision of business plans due to a dynamic and ultimately automatic process of managing supply and demand. Finally, through using communication standards, it is not necessary that costly interfaces have to be built. The creation of a common platform for the exchange of information between various partners is one of the future improvement areas of this pilot. In the future, the exchange will not only be restricted to supply data, but in the future the market place might even allow the exchange of electronic catalogues.

Outlook

CPFR will reach a new phase at the end of 2000 with the integration of a first sales point in the process. Today the data is accumulated at the central warehouse of Eroski, but in the future the data will be accumulated from the stores directly, reflecting the real demand of consumers. This will consist of importing daily sales movements (message EDI INVRPT) of around 60 references of the biggest supermarket of Eroski, and will also process and integrate this new type of data into the commercial and operational planning processes. The final objective is to integrate the plans of all customers in all markets, for all commercial events. In the meantime, Henkel is planning to internally develop a process of collaborative management in order to integrate also the knowledge of marketing and sales operations of non-CPFR customers into their planning.