

Oliver Wight White Paper Series

Informative guides on
industry standard practice



Ron Ireland

Ron Ireland is one of the pioneering visionaries for one of today's leading Value Chain Best Practices, CPFR®, Collaborative Planning Forecasting and Replenishment. Ron was a former Wal-Mart Store, Inc. IT Strategy Manager who developed a significant portion of Wal-Mart's supply chain architecture. A key element of Wal-Mart's supply chain is based on Trading Partner Collaboration using a shared forecast that would improve on the store and DC replenishment systems.

Ron led a proof-of-concept pilot called CFAR, for Collaborative Forecasting and Replenishment, between Warner Lambert and Wal-Mart. This well-known and published CFAR pilot proved the need and value for trading partner collaboration industry-wide which lead to the creation of today's VICS global industry standard, CPFR®.

CPFR®

Collaborative Planning Forecasting and Replenishment

 by Ron Ireland

The value chain has long suffered from 'Silos' in business partnerships and technology; collaboration is usually referred to, in the real world, when 'Collaborating with the Enemy'. Quite often the enemy is internal; a struggle many of you have had for years. Today leading companies are embarking on a path of collaboration with external trading partners. These leading companies have found that, to improve overall value chain performance, collaborating as a team within the entire value chain is the best possible approach. As a result of this vision of trading partner collaboration, a new industry standard has been adopted and implemented by many of the industry gorillas. It is called CPFR®, Collaborative Planning Forecasting and Replenishment.

CPFR® was a vision of Wal-Mart Stores, Inc. back in the mid 1990s. The basic principle says that if we could create a more accurate forecast of demand and actually execute replenishment and supply chain optimization opportunities using this more accurate demand forecast, then we could take costs out of the entire value chain, and at the same time, grow revenue; nothing more than plain old common sense. The CPFR® vision also said that, to have the most accurate forecast, everyone should have access and visibility to a single forecast number so all links in the value chain can contribute their knowledge of causal factors in which to collaborate and update the forecast to be more accurate. In other words, let's take the best of retail-managed, vendor-managed transportation and supplier management knowledge, and input it into the same demand forecast to come up with one number that flows into our execution systems. To take it further, let's now share the forecast from the supply side with the entire value chain for any further collaboration for optimization or constraints.

Wal-Mart realized that, for the vendors to really lower costs, the vendors would need more retailers other than just Wal-Mart to participate in such a collaborative program. The vendors would need critical mass to really impact their manufacturing processes. This is why Wal-Mart turned to an industry standards body to adopt CPFR® as an industry guideline and standard. The organization is called VICS, Voluntary Inter-Industry Commerce Standards. This is the same industry-governing body that uses the Uniform Code Council to produce the standards for bar coding as well as for EDI.

The CPFR® standards guidelines are structured in nine steps that are primarily focused on business processes. These collaborative nine steps are:

- 1 Developing a front-end arrangement
- 2 Creating a joint business plan
- 3 Creating a sales demand forecast
- 4 Identifying exceptions to the collaborated sales forecast
- 5 Resolving the exceptions
- 6 Creating an order forecast
- 7 Identifying the exceptions, constraints, and optimization opportunities for the order forecast
- 8 Resolving the order forecast issues
- 9 Execution to the order

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Technology standards were also created to support the automation of collaboration and the B2B integration using EDI as well as XML through the Internet.

CPFR® fits very well as a business process step for input into demand management and forecasting just prior to the S&OP process. It can also be used on the supply side for collaboration with the trading partner when product constraints occur as well as optimization potential.

CPFR® has become a global industry standard and has been translated into French and Japanese. Although CPFR® was originally started and adopted by the retail/CPG industry, other industries such as high tech's Rossetta Net, the transportation industry, healthcare, automotive, and many others are also joining in on the collaboration opportunities.

The bottom line is that trading partner collaboration, whether we call it CPFR® or not, applies to all industries.

Here are the average results of the CPFR® pilots so far:

- Forecast accuracy improvements of 20 to 30 percent
- Sales revenue growth of 8 to 10 percent
- Cost of goods sold reduced 3 to 4 percent
- Operating costs reduced 1 to 2 percent
- Lead time and cycle times reduced 25 to 30 percent

Success of the CPFR® pilots have caused Wal-Mart, Target, Sears, Staples, Meijers, Kimberly Clark, Proctor and Gamble as well as companies in Europe such as Sainsbury's, Tesco, Henckel KgaA, the Dusseldorf, and Grupo Eroski, to ask their top trading partners to join in CPFR® programs with them. These leading companies have migrated past the early CPFR® pilot stages and are now going to production scalable rollouts.

Many companies who are not in the CPG industry have similar trading partner collaboration programs that can help improve their performance by leveraging some of the cross-industry-adopted VICS standards and guidelines from CPFR®. The guidelines can work for all industries.

Here are the ten key points you should know about CPFR®?

- 1 CPFR® is an industry standard that has been sponsored by VICS as well as adopted by the Global Commerce Initiative, GCI. In addition, the UCC, Uniform Code Council, is now funding the VICS CPFR® Working Group.
- 2 Many industry standards bodies are now joining forces with the VICS organization to develop similar trading partner collaboration programs.
- 3 The CPFR® Guidelines are 80 percent business process flows and agreements.
- 4 CPFR®, as with any collaborative trading partner relationship, can have a significant impact on change management affecting company cultures, organizational alignments, roles and responsibilities, balanced metrics, and incentives.
- 5 The CPFR® technology is imbedded within the applications many companies own already. The leading CPFR® technology companies that have had their CPFR® software solutions certified for CPFR® interoperability compliance in accordance with the VICS standards are: SAP, Logility, JDA, Synkra, i2, Manugistics, IPNet
- 6 Many companies are adopting other collaborative programs such as SRM - Supplier Relationship Management.
- 7 CPFR® will greatly improve demand forecast accuracy and has made a significant improvement in S&OP performance.
- 8 CPFR® or any trading partner collaboration program is easily integrated into the Class A Oliver Wight Proven Path methodology.
- 9 Oliver Wight has recently announced trading partner collaboration as a one-day public training class and updated the current education programs where trading partner collaboration complements or fits in with that program.
- 10 Trading partner collaboration and CPFR® adoption is just beginning to take off.

Business Model - Scenario A

STEP 1

Front-End Agreement

- Agree to confidentiality and dispute resolutions
- Develop scorecard to track supply chain metrics
- Establish incentives

STEP 2

Joint Business Plan

- Project team develops plans for promotions, inventory policy changes, new product introductions, store openings and closings

STEP 3 - 5

Sales Forecast Collaboration

- Trading partners share demand forecasts and identify exceptions. Resolutions are collaborated on causal factors to a single forecast number.

STEP 5 - 8

Order Forecast Collaboration

- Trading partners share replenishment plans, identifying and resolving exceptions.

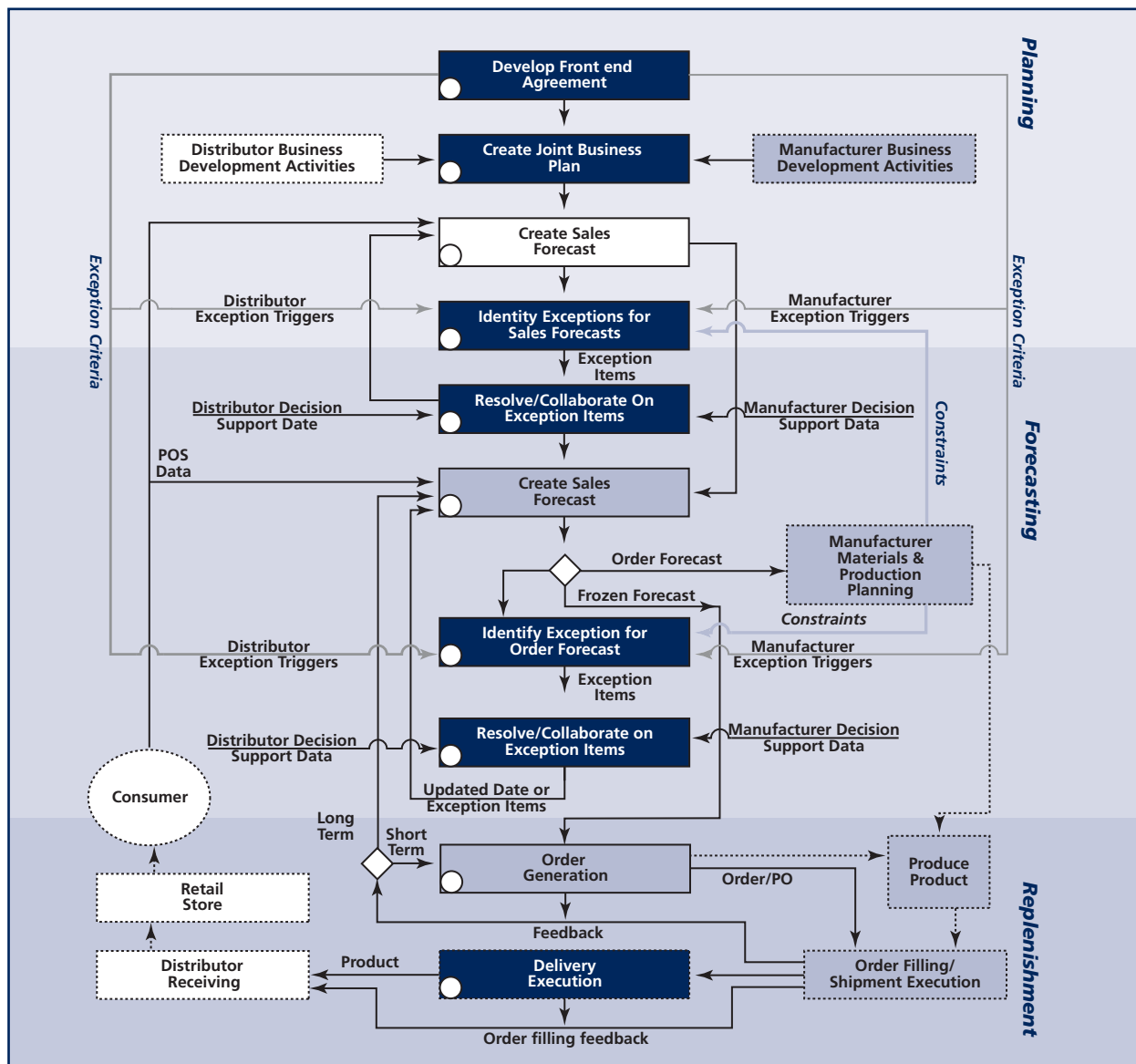
STEP 9

Order Generation/Delivery Execution

- Results data is shared and forecast accuracy problems are reviewed. Performance metrics are accessed.

Key:

- Distributor Activities
- Either/Joint Activities
- Manufacturer Activities



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For further information on CPFR®, contact Oliver Wight at:

www.oliverwight.com

or call:

800-258-3862

You will find many articles and more detail on CPFR®.
In addition, please contact me for further information.

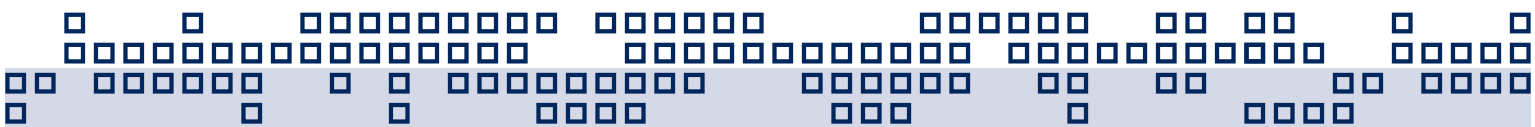
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CPFR® is a registered trade mark of the Voluntary
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