Partnering &

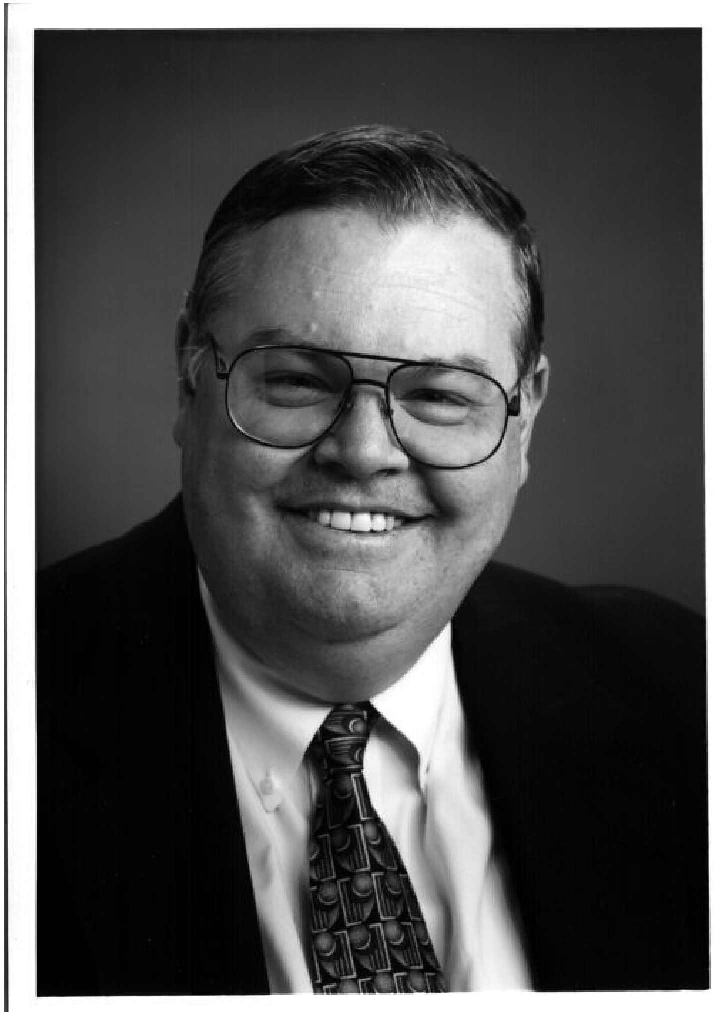
David Malmberg

davidmalmberg@cgrmc.com

http://www.cgrmc.com

Technology Training, S. de R.L. de C.V.

Speaker



David Malmberg, Principal with CGR Management Consultants*, has over 30 years experience in Information Technology, Purchasing, Inventory Management and Supply Chain Management. Prior to joining CGR, he was VP of Purchasing and Inventory Management for several multi-billion companies including McKesson Corp. and for Merisel Inc. He is co-author of <u>Squeeze Profits Out of Your Supply Chain</u> and several chapters in the <u>Handbook of Supply Chain Management</u>. He has a BA from Claremont Men's College and BS and MS degrees from Stanford University.*

CGR is a 17 year old organization. Principals do the consulting work. All have significant consulting experience with emphasis on Supply Chain and IT. Core group graduates of Stanford. Located throughout US, but most on West Coast.

Examples of Successful Integrated Supply Chain Strategies

- Wal-Mart's use of EDI/cross docks
- McKesson's use of pharmacy SOPS (Sales Order Processing Systems) devices
- AHS use of hospital stores SOPS devices
- Toyota and Mercedes-Benz JIT (Just-In-Time) inbound logistics with suppliers
- Ford's accounts payable paperless match
- P&G's Every Day Low Prices (EDLP)
- Dell's B2C mail order PCs

Benefits of Successful Supply Chain Integration

- Inventories reduced 50%
- 20% reduction in supply chain costs as a percentage of total revenues
- 40% increase in on-time deliveries
- Cumulative cycle time reduction of 27%
- 17% increase in revenues
- Out-of-stock incidents down 9 times
- 50% reduction in finished goods inventory by postponing packaging/labeling until orders received

Source: MIT Center for Logistics Survey of 50 successful Supply Chain Re-engineering projects

SCM Future – the Virtual Enterprise

A virtual enterprise is an assemblage of companies combining their efforts to bring products to market.

- Based on lessons learned from SCM: Companies working together can be more competitive than a single corporation trying to master everything.
- These ***partnering*** companies function together as a single competitive entity (the Virtual Enterprise) but remain distinct legal entities and individually focus on their core-competencies.
- Their common emphasis is on the overarching relationship between suppliers and customers.
- They recognize the need for information to flow freely to and from the customer through the "back office" and ultimately to the supplier and/or manufacturer.
- The Virtual Enterprise's very existence is based on taking E-commerce to its logical conclusion.

The Virtual Enterprise -- Overview

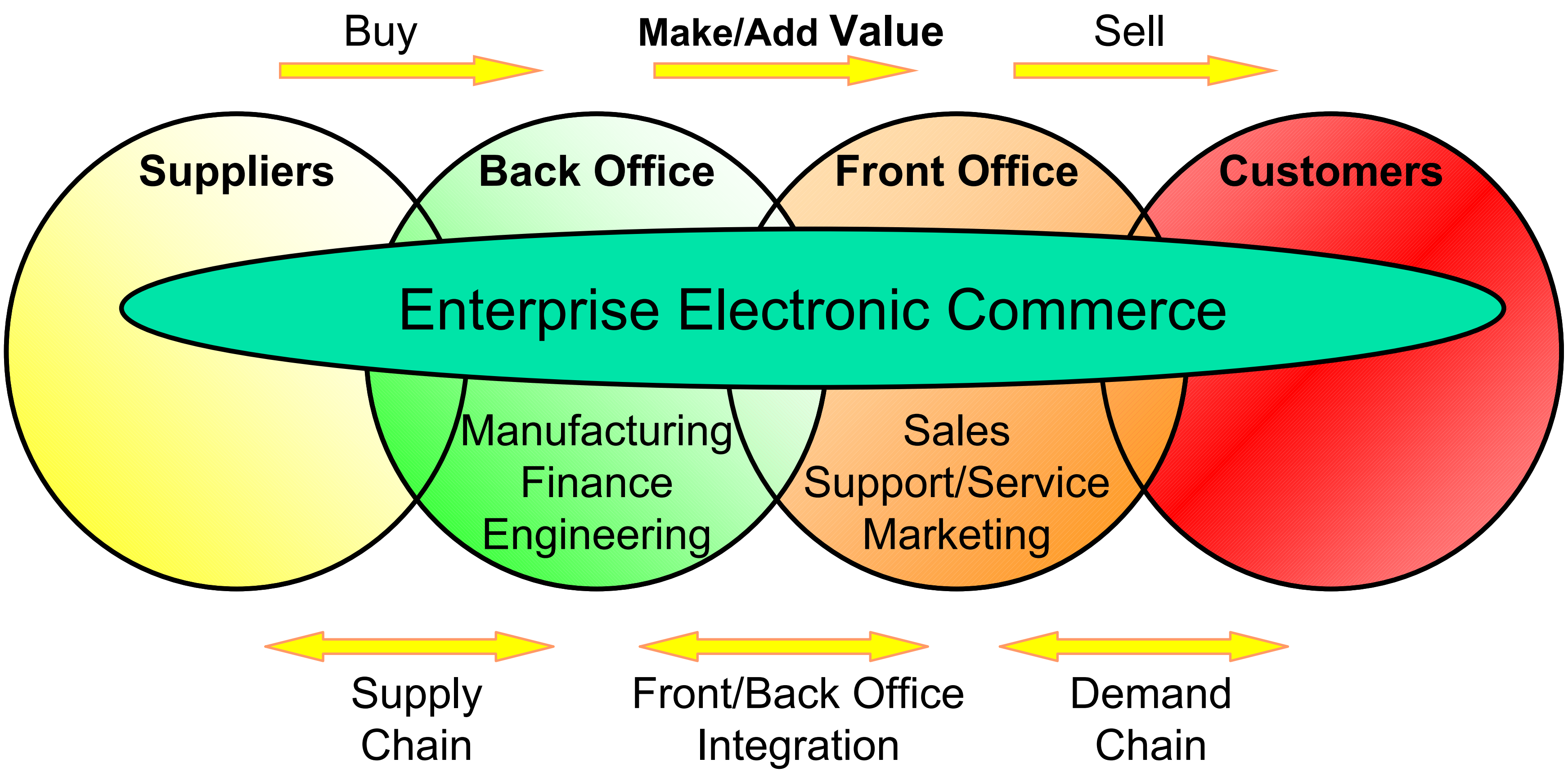
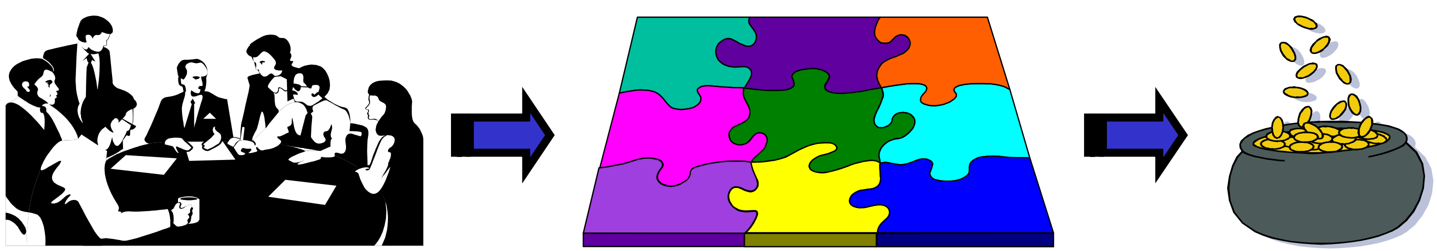


Diagram Source: The Yankee Group

Key Factors for Virtual Enterprise Survival and Success

- Intense collaboration/partnering amongst the VE partners
- Common focus on serving the ultimate customer
- Superior integrated enterprise-wide planning and execution
- Rapid/instantaneous decision making
- Assets and processes concentrated where appropriate
- Elimination of non-productive resources
- Total commitment to E-Commerce



Why Partner?

- Partnering within the supply chain enables *all* of the partners to achieve benefits that they could not achieve by themselves
- Typical benefits include:
  - Reduced costs of goods
  - Reduced costs of operations
  - Faster cycle-times
  - Lower inventory levels
  - Better customer service
  - Improved “bonding” between the partners

McKESSON

Empowering Healthcare

- Two Primary businesses: Healthcare Products and Services
- Over 100 warehouses for the distribution of HBC (Health & Beauty Care), OTC (Over the Counter), pharmaceuticals, medical-surgical and other Healthcare products and services to Drugstores, Hospitals, Nursing Homes, Grocery Stores, etc.
- Leadership in each market served:
  - #1 in Healthcare information systems and technology
  - #1 in RX and medical-surgical supply distribution
  - #1 in pharmacy automation
- Revenues of $42 billion during 2000

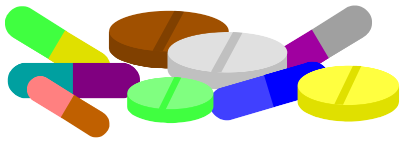
McKesson Current Customer Base

- 5,000 hospitals
- 25,000 retail pharmacies
- 200,000 physicians
- 10,000 long-term care sites
- 750 home-care agencies
- 450 pharmaceutical manufacturers
- 2,000 medical surgical manufacturers
- 600 healthcare payors

Partnering Case 1: Generic RX Manufacturers

Situation:

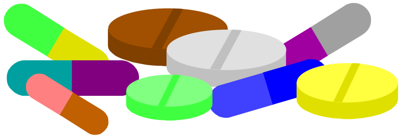
- 200+ manufacturers of generic pharmaceuticals
- Extremely erratic production, shipping and order fulfillment
- Products stocked in (and replenished to) 45 separate warehouses
- Poor customer service to McKesson's customers



Partnering Case 1: Generic RX Manufacturers

Actions Taken:

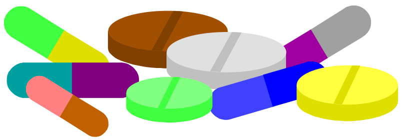
- Reduced manufacturers to about 50
- Developed partnering program with these 50 -- based on:
  - Delivery of monthly orders to one location (rather than weekly orders to 45 DCs) based on rolling 12 week forecast
  - Participation in McKesson "Preferred Generic Supplier" (MultiSource) private label program
- Created a distribution "hub" for generics and other difficult SKUs



Partnering Case 1: Generic RX Manufacturers

Results:

- Reduced generic SKUs by over 50%
- Increased manufacturer partners' sales substantially -- especially if part of the MultiSource program
- Smoothed production and simplified delivery for manufacturers
- Reduced McKesson generic inventory by 25%
- Improved Generic fill-rate to McKesson's customers from low to mid 80% to high 90%.
- A win-win-win!



Partnering Case 2: Wal-Mart

Situation:

- McKesson had just won the contract to be Wal-Mart's exclusive wholesale provider of pharmaceuticals and OTC (Over-the-Counter) healthcare products
- Part of the reason was McKesson's willingness to partner with them to achieve VMI (vendor managed inventory)
- Wal-Mart also wanted better information about service level failures -- so it could manage the exceptions
- Wal-Mart wanted a better process for new store openings

Partnering Case 2: Wal-Mart

Actions Taken:

- Developed VMI system to automatically replenish stores based on their POS data
- Connected their computer system with McKesson's so both parties understood current stock availability and shortages everywhere
- Setup special Help Desk and support staff for Wal-Mart
- Developed special service level reports and discussed any service problems with them each week
- Created computer system to "automatically" assure the appropriate inventory was in place whenever they opened a new store

Partnering Case 2: Wal-Mart

Results:

- Wal-Mart had better fill-rates with less inventory in OTC and RX than ever before
- McKesson honored as Wal-Mart's "Supplier of the Year"
- McKesson awarded new contract at renewal time
- VMI "auto replenishment " system rolled out to other major customer (e.g., Safeway, Price Club, several Drugstore chains)
- Custom service level reports and help/support activities also expand beyond Wal-Mart
- A win-win!

Partnering Case 2: Procter & Gamble

Situation:

- McKesson had been approached by P & G to participate in a *test* of VMI/CRP (Vender Managed Inventory/Continuous Replenishment). Other participates included Kmart, Wal-Mart, Bergen Brunswig.
- P & G's objectives were to smooth out their production schedule and to move to EDLP (Every Day Low Price)
- The concept was that P & G would ship McKesson what McKesson needed when they needed it -- no more, no less
- The official justification/benefit to McKesson was the potential to reduce inventory by 15 to 20 days

Partnering Case 2: Procter & Gamble

Actions Taken:

- P & G committed a taskforce of about 10 people, including a full-time project manager who moved to McKesson’s headquarters
- McKesson put together a similar team -- headed by a SVP (who was not full-time)
- McKesson had long bought P & G products “deal to deal” to obtain the lowest possible price
- Under the planned VMI/CRP program no special prices were available (e.g., EDLP only)
- Both taskforces and both project leaders could not solve the pricing impasse

Partnering Case 2: Procter & Gamble

Results:

- The immovable object met the all-powerful force
- Both sides spent a great deal of energy and money with no results to show for it
- P & G project manager saw project failure as a personal one and took desperate actions to save his career
- Both parties were very disappointed and thoroughly disappointed
- A lose-lose!!!

Partnering Case 2: Procter & Gamble

Results for another test participant:

- Warehouse inventory reduced from 19 to 6 DSI
- Inventory turns went from 19 to 60 (in warehouses)
- Fill-rates (to the stores) improved from 96.4% to 99.2%
- Lower costs of warehousing and order processing

Results for P & G:

- Order volume up by 30%
- Market share up by 4%
- Vehicle utilization up by 4% to 12%
- 60% reduction in returns
- Lower cost of production, warehousing, and delivery

Keys to Partnering Success

- Remember that partnering is an “unnatural act” and that not all partners derive equal pleasure/benefit from the act
- The effort must be seen as a “Win-Win” by both sides with no hidden agendas
- Each partner must have a complete understanding of the magnitude of the effort and the resources required for success -- i.e., you must begin the project with your eyes wide-open
- You must ***really*** commit the needed resources including the “right” people, and a rapid response from the IS/IT organization
- You need a full-time project manager, who must be high enough in the organization that (s)he has the “clout” to make things happen (in both organizations)
- You must have a strong commitment to the project at all levels in the organization and in both good times and bad
- Both partners/teams must trust one another