

CPFR

When, Where, How and Why?

CPFR

- In terms of best practice, CPFR is the most effective method to share information between customers and suppliers.

CPFR Benefits

- Forecast accuracy improvements of 20-30%
- Sales revenue growth of 8-105
- Cost of goods reduced 1-2%
- Lead time and cycle times reduced 25-30%

Purpose

- Why Demand Planning?
- Why Collaborate?
- Can Collaboration Happen in a Vacuum?
- How Is Collaboration Accomplished?
- What Are the Benefits?

Keys to Successful Demand Planning

- Perceived Business Needs
- Skilled Organization
- Improving Processes and Techniques
- Utilizing Systems and Technology
- Internal Integration and Collaboration
- External Collaboration and Integration
- Successful Partnering
- Taking the Long View

Perceived Business Needs

- Rising Tide of Customer Expectations
- Surviving
- Thriving
- Improving Profitability Drivers
 - Market Share / Customer Service
 - Inventory Productivity
 - Cost Reduction (Demand Stabilization)

Skilled Organization

- Dedicated Function
- Critical Skill Sets
 - Forecasting & Supply Chain Concepts
 - Technical & Software Skills
 - Process Management & Product Knowledge
 - Persona & Interpersonal Skills
- Roles & Responsibilities

Improving Processes and Techniques

- Process Reengineering & Definition
- Organizational Issues (Who & What)
- Increased Reliance on Quantitative Techniques
 - Data Accessibility (POS, IRI, ACN)
 - Data vs. Information

Utilizing Systems & Technology

- Choices Should Be Driven by Perceived Business Needs
- Commitment May Constrain Choices
- Implementation & Business Integration are as Important as Technology Choices

Internal Integration & Collaboration

- Systems Integration
- Intra-organizational & People Interfaces
- Communication Methods

Successful Partnering

- Consultants
- Software Suppliers
- Benchmarking Partnerships

Taking the Long View

- Needs Analysis (present & future)
- Develop a Clear Strategy
- Delineate Action Plans
- Determine Commitment & Resources
 - People
 - Time
 - Effort & Attention
 - Money

External Collaboration & Integration

- Definition:
- What is Collaboration?
 - Working jointly with others or together, especially in an intellectual endeavor.
 - Cooperating with or willingly assisting an enemy.
- Specific application: Trading Partners Collaborating on Demand of Common Interest

External Collaboration & Integration

- Implications
 - Working together
 - With others
 - “Friend/Foe” relationship
- Focus
 - Identification of future demand

External Collaboration Opportunities

- Surveys show that early CPFR® trials helped result in 10% inventory reduction and forecast improvements of 20%
- Transora execs estimate that CPG manufacturers currently carry more than \$1 trillion of “just-in-case” inventory because industry forecasting systems can’t adequately synch B2B demand.

External Collaboration & Integration

- Why?
- What are our objectives?
 - Increased quality and quantity of information
 - Synchronization of demand
 - Relationships
 - Education

External Collaboration & Integration

- Why?
- What value is being added?
 - Forecast accuracy
 - More timely information
 - Improved customer service
 - Decreased inventories
 - Knowledge of the customer's systems, processes, people, and culture

External Collaboration & Integration

- What?
- Demand
 - POS vs. Orders/Shipments ... whose demand?
 - Time horizons
 - Elements (Quantity and Time)
 - Replenishment
 - Events / promotions
 - Pipeline fill

External Collaboration & Integration

- What?
- Supply
 - Capability
 - Lead times

External Collaboration & Integration

- How?
- Method of comparison
 - Spreadsheet comparisons
 - EDI
 - Third Party Facilitation (partial or full outsourcing)
 - Partner-to-Partner using compatible software
 - B2B exchanges
 - Pure Internet

External Collaboration & Integration

- Who?
- Demand Planning, Sales, Marketing, Customer Service, Buyer, Management
- Key Factors
 - Value of input to the process
 - Likelihood of distraction (tangent quotient)
 - Maturity of the process

External Collaboration

- When?
- Monthly, weekly, quarterly, annually
- Factors
 - The half-life of information
 - Impact of the customer
 - Time
 - Cost
 - Preparation

External Collaboration

- Where?
- Alternatives
 - Face to face
 - Video conference
 - Phone conference
 - Interned or other technology based

External Collaboration

- Where?
- Factors
 - Participation
 - Cost
 - Effectiveness
 - Environmental factors (weather, space)
 - Technological capability

External Collaboration

Where?

Evaluation of meeting methods		
Meeting	Positives	Negatives
Face to face	Facilitates communication Relationships Eyeball factor (credibility) Intangibles	High cost Time intense Travel
Video conference	Reasonable cost Potential for high participation Semi-visual interaction	Equipment availability Scheduling
Teleconference	Potential for high participation Cost Flexibility	Loses the visual interaction Potential for distraction
Technology only	Cost	Totally impersonal Learning curve Technology availability and cost Possible issues with proprietary systems (WM)
Combinations/hybrids	Manage the trade-offs Synergies	Inconsistency

Collaboration Objectives

- Identifying environmental factors
 - Overall business trends
 - Competitive information
- Customer specific information
 - Cash flow
 - Open to buy
 - Inventory considerations
 - Strategy changes (e.g. pricing)

Collaboration Objectives

- Comparison of Demand
 - Overall synchronization
 - Determining differences in demand
 - Determining differences in forecast components
 - Defining parameter changes in systems

Synchronizing Demand

	Customer Forecast				Supplier Forecast				%Diff	Exceptions
	Jan	Feb	Mar	Total	Jan	Feb	Mar	Total		
Product A1	80,888	74,613	30,762	186,263	82,033	64,046	38,403	184,482	1%	
Product A2	73,635	67,204	21,008	161,847	60,683	47,646	36,632	144,961	12%	
Product A3	84,181	70,261	30,575	185,017	87,428	60,611	38,467	186,506	-1%	
Product A4	24,218	23,521	22,699	70,438	20,689	18,701	20,251	59,641	18%	
Product A5	27,593	24,803	26,192	78,588	27,646	25,743	25,731	79,120	-1%	
Product A6	16,728	14,491	15,377	46,596	17,140	14,978	16,838	48,956	-5%	
Group A Total	307,243	274,893	146,613	728,749	295,619	231,725	176,322	703,666	4%	
Product B1	7,727	10,847	8,865	27,439	2,550	9,990	7,200	19,740	39%	XXX
Product B2	1,100	1,234	1,130	3,464	1,080	1,350	810	3,240	7%	
Product B3	3,989	5,928	4,730	14,647	5,130	5,190	3,510	13,830	6%	
Product B4	4,200	4,200	4,200	12,600	6,384	1,848	2,688	10,920	15%	
Product B5	19,646	16,750	23,095	59,491	17,770	17,003	13,581	48,354	23%	
Product B6	32,459	28,973	35,039	96,471	34,515	27,131	29,669	91,315	6%	
Product B7	17,287	14,217	17,342	48,846	16,342	16,045	12,300	44,687	9%	
Group B Total	86,408	82,149	94,401	262,958	83,771	78,557	69,758	232,086	13%	XXX

Exceptions Parameters:

25% at SKU Level

10% at Group Level

Synchronizing Demand

- Key factors
 - Setting exception parameters
 - High level
 - Lower levels
 - Factual analysis
 - Specific actions

Collaboration Objectives

- Planning Product Life Cycles & Transitions
 - Timing
 - Inventory strategies
- General knowledge and understanding
 - Culture
 - Systems
 - Financial
- Developing relationships

Planning PLCs: Beginning of Life

- Quantities
 - Pipeline fill
 - Basic rate of demand
 - Seasonality
 - Ads/promotions
- Timing
 - Pipeline fill
 - Replenishment
 - Ads/promotions

Planning PLCs: End of Life

- Common exit strategy
- Synchronized forecast
- Service agreements
- Inventory policies
- Exact timing

General Knowledge & Understanding

- Competitive position
- Culture
- Systems
- Financial

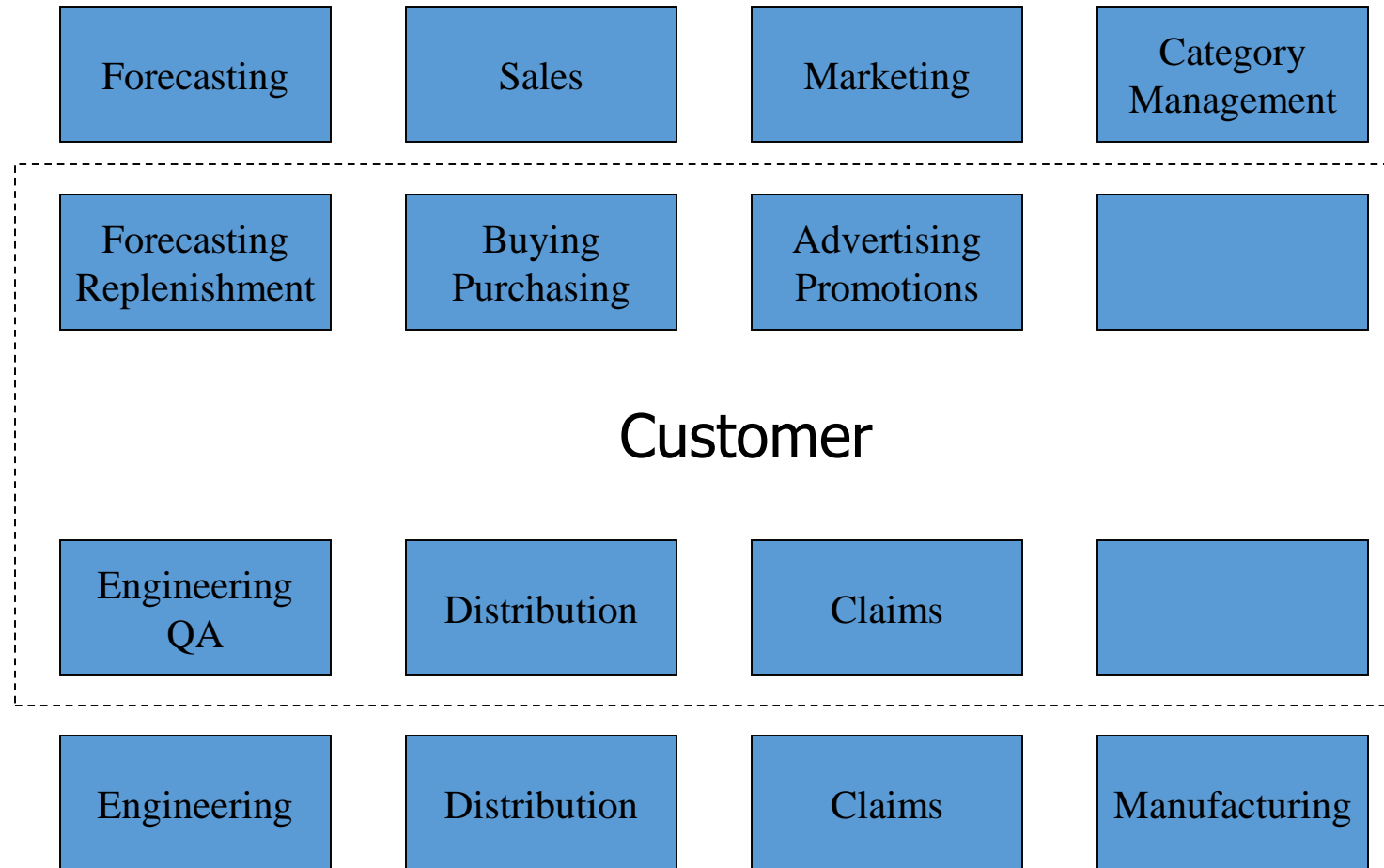
Developing Relationships

- Organizational
- Personal
- interactions

Collaboration Essentials

- Partnership
 - Two-way commitment
 - Problem solving
 - Focus on improvement
- Assertiveness
- Openness
- Obvious benefits

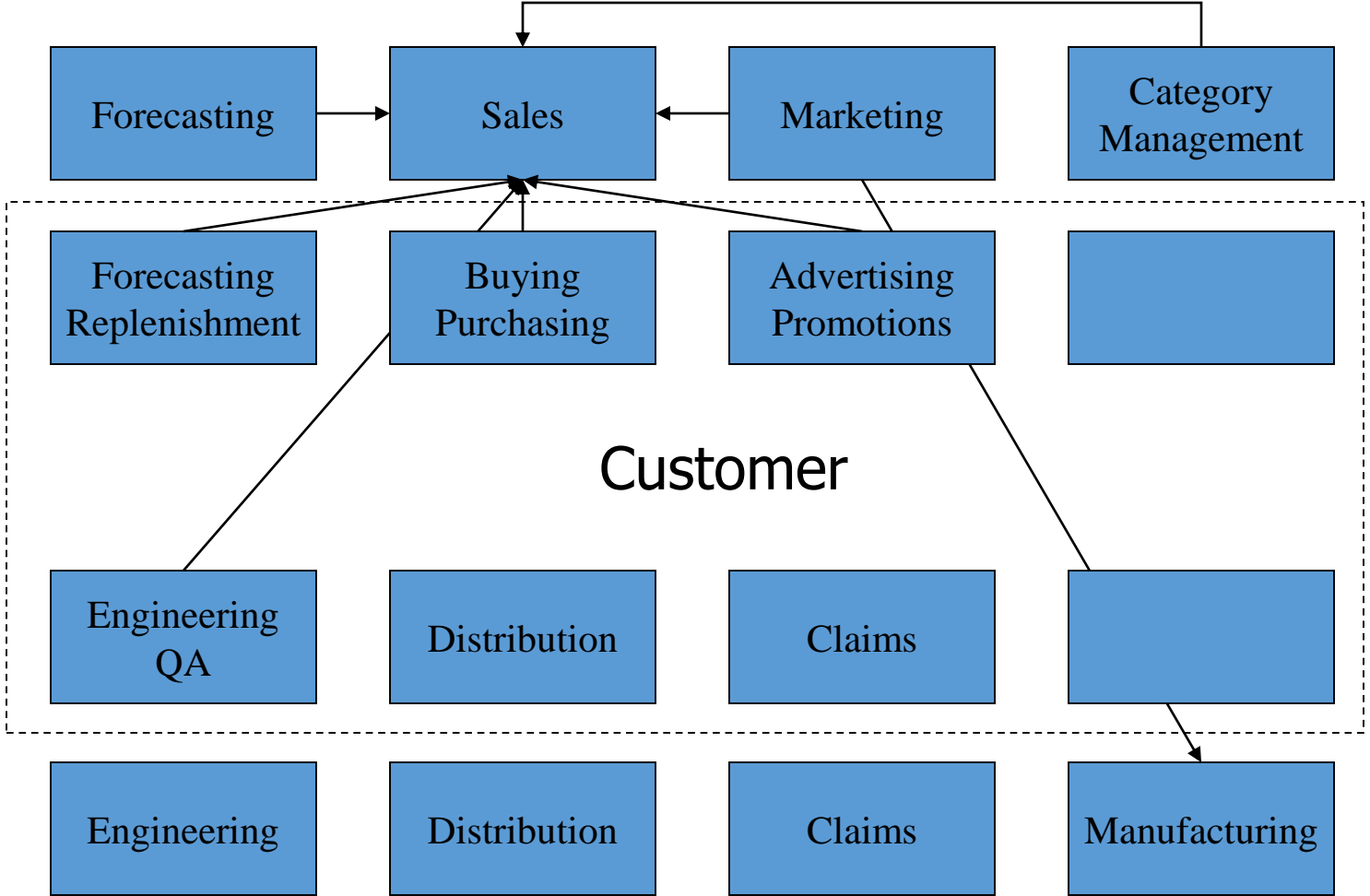
Sample Organization



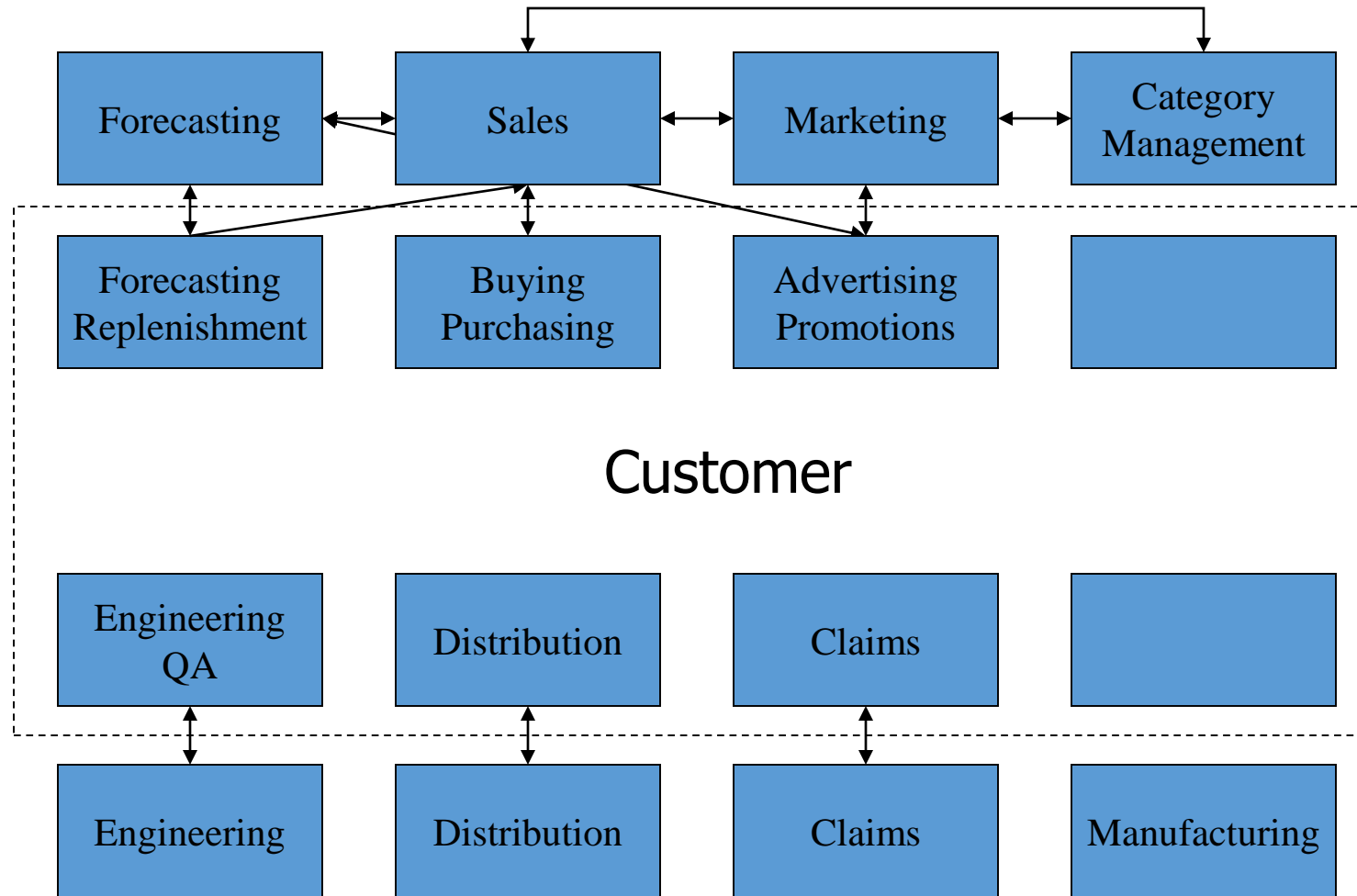
Organizational Considerations

- Communication
- Politics
- Strategy
- Experience
- People skills

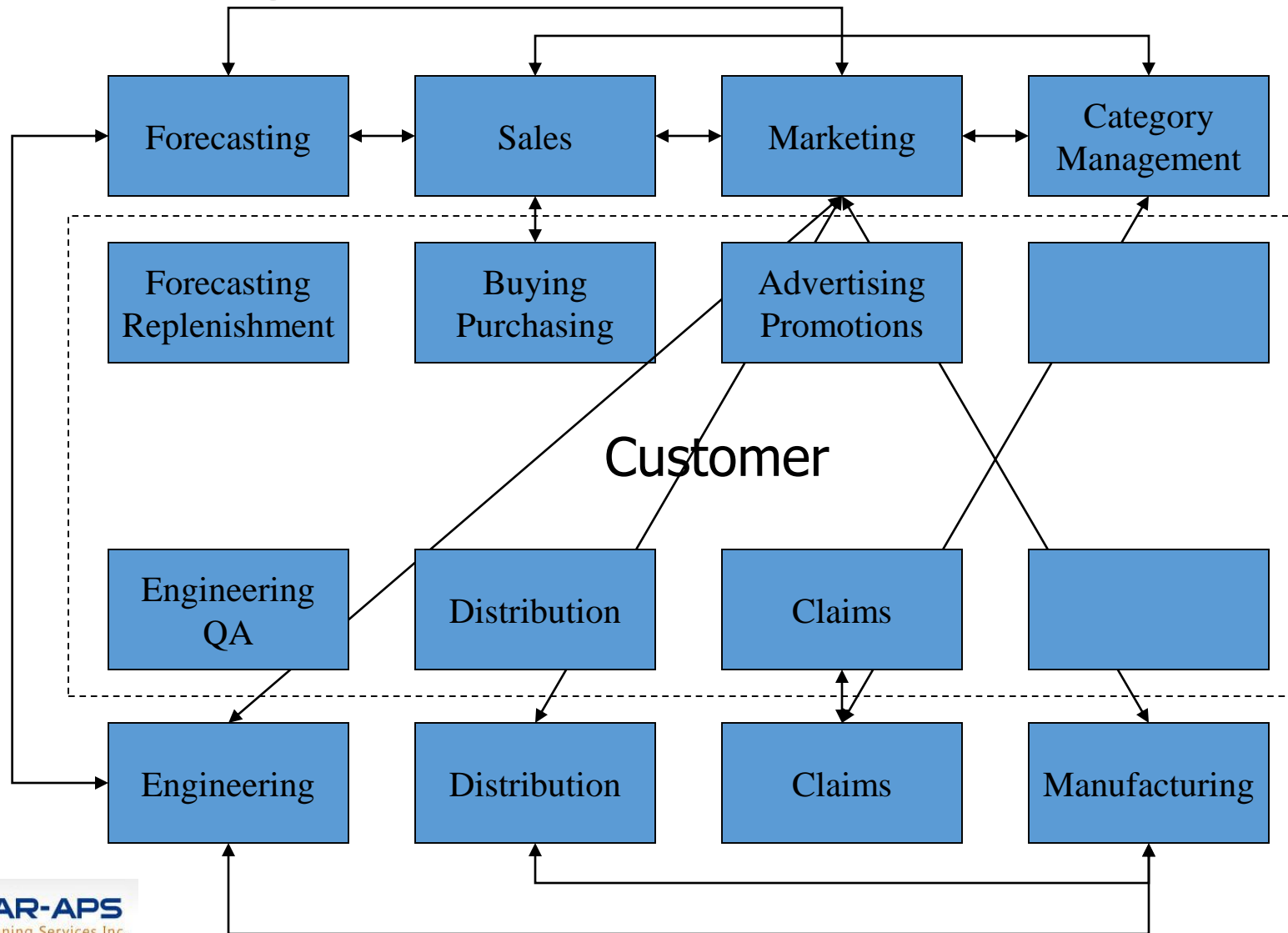
Bottleneck Communication



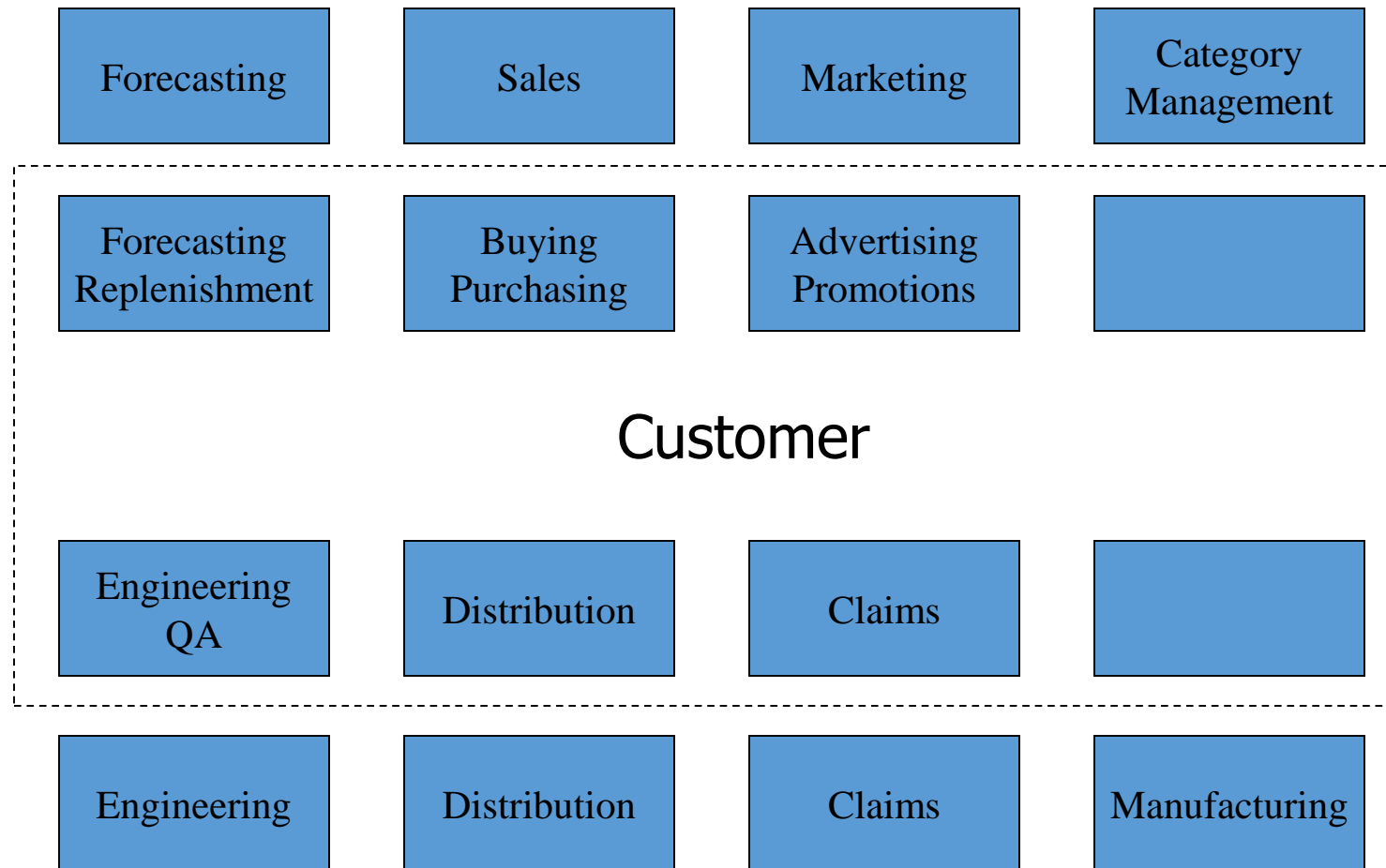
Functional Alignment



Current Alignment



Optimal Alignment



Collaboration Challenges

- Proprietary focus
- Turnover
- Poor planning
- Lack of clear strategy
- Internal politics

Key Issue: Getting the Customer's Time

- Are there ever service problems?
- Would they like to increase sales, margins, and overall profitability?
- Are we a key supplier?
- Can they utilize our expertise?
 - Forecasting
 - Analysis
 - knowledge: product, market, demand

Key Issue: Who to Collaborate With?

- Will the benefits outweigh the cost?
 - Apply Pareto
- Do they have the infrastructure to support the process?
- Do they know what they want?

Collaborating with Suppliers

- Willingness and ability to share information
- Partnership: the golden rule
- Tools and infrastructure
- Consistency
- Willingness to take “NO” or an answer, hear bad news, and take responsibility for problems.

Special Problems

- Collaboratively Forecasting New Products
 - The influence of optimism is exponential
 - Shoot the messenger syndrome
 - How high is high?
 - (the shoot the moon effect)

Special Problems

- Customer constraints:
 - Financial, Inventory, etc.
 - End of quarter effect
 - Cash and purchasing limitations
 - Surprises in ordering patterns
 - Inconsistent decisions

Special Problems

- Disagreement and chronic error
 - Differences in perspective / agenda
 - Hedging / leaning against the wind
 - Measurement
 - Accountability
 - Parting ways

Business Collaboration Uncertainties

- Open architecture and software integration
- The role and development of exchanges
- Functional responsibility for technological strategies and developments
- Long-term costs and benefits

Business Collaboration: Where Do I Start?

- Resources:
- VICS CPFR® Committee www.cpfr.org
- B2B: the magazine for Marketing and E-commerce Strategies www.btobonline.com
- IBF – Institute of Business Forecasting www.ibf.org
- IIF – International Institute of Forecasters www.forecasters.org

Business Collaboration: Where Do I Start?

- Find a champion
- Determine the Need
 - Q: Can I afford to not know what my customer is planning to do as it relates to demand?
- Determine the Strategy
- Determine the Means

Business Collaboration: Where Do I Start?

- Understand the capabilities of your infrastructure and what enhancements will be needed.
- Develop a vision and a detailed plan.
- Justify the effort with both strategic impact and the numbers.
- Learn all you can
 - Read
 - Search
 - What are our competitors and customers doing?
 - Try to get free advice wherever possible.

Business Collaboration Summary

- Business needs should drive demand planning solutions
- External collaboration should be part of a total demand planning process
- Carefully count the cost, then commit