



Efficient Consumer Response Australasia

# Winning in January 2011 Review



one voice - adding value

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## Acknowledgements

The Secretariat would like to thank ECRA Board members for continuing to drive focus, deliver best practice and support the *Winning in January* initiative.

Board member companies include:



NEW ZEALAND FOOD & GROCERY COUNCIL



## Introduction

Product availability in January has been a challenge for the fast moving consumer goods industry for years for both retailers and suppliers. For many, January service levels have suffered in comparison to Christmas, and as a result have seen poor product availability; lost sales; stock outs on shelf and a less than satisfactory offering for the consumer.

In early 2009, the Board of Efficient Consumer Response Australasia (ECRA) identified improving January service levels between suppliers and retailers and between retailers and their stores as a major opportunity for the industry players to collaborate under the banner of *Winning in January*.

The following ECRA report is the culmination of the industry focus for 2009, 2010 and 2011 providing a fact based set of key industry results, findings and next steps.

ECRA remains committed to working with industry to further improve On Shelf Availability (OSA) and as such we anticipate further reports to be generated in subsequent years. This years report should be used to inform your business, prepare for 2012 and act as a catalyst for further discussion with your trading partners.

## Winning in January 2011 Review

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### January 2011

The run up to January 2011 looked promising.

Collaborative planning meetings between retailers and suppliers were a significant focus in the lead up and many of the learning's from January 2010 were put into action. Up-stream supply was included in many elements of the process and incorporated into planning. Within businesses much attention was given to high risk categories, reviewing safety stock levels and where appropriate minimising plant closures.

However January 2011 was significantly different from previous years.

Flooding across Queensland, northern New South Wales, Victoria, northern Western Australia and to a lesser extent northern Tasmania devastated these areas. The fast moving consumer goods (FMCG) industry was affected in many ways; the loss of businesses, crops, livestock, plant, equipment and road and rail closures. The industry worked tirelessly throughout this period to ensure product was available on shop shelves. Collaborative efforts between competitors and trading partners at this time were a positive stand-out this year.

Consumer confidence fell throughout January 2011. According to Roy Morgan the fall has been driven by Australians having increasing concerns about their financial situation, both compared to this time last year and over the year ahead. Falling consumer confidence did little to improve already flat retail spending. This did little to bolster sales.

Heavy promotional activity continued as retailers battled for the consumer dollar. Promotions were deep cut, frequent, intense and persistent. This drove volatility and supply capability became a major issue encountered this summer. High frequency and the increasing depth of promotion meant that actual sales often varied markedly from forecast, impacting inventory levels and availability.

All of the above led to a high degree of volatility and unpredictability in the market, particularly in regards to forecasting demand. Indeed whilst there were significant mitigating circumstances throughout January 2011 such as the Queensland floods, the fact remains that the gains experienced in 2010 were not built upon.

The series of case studies detailed in this document are from a broad range of suppliers and retailers; they focus on the need to build agility and for flexible supply chains. Retail expectations going into January 2012 are likely to centre on these dual requirements, providing a real opportunity for open and robust discussions around what trading partners need to do, and should expect of one another.

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In summary, a promising start with much collaborative discussion in the lead up to January 2011 resulting in an excellent start. Service levels fell away badly in subsequent weeks, a result of a combination of external circumstances and internal issues in regards responsiveness to demand resulting in an overall poor performance in comparison to the previous year.

The results can be seen in following charts and case studies, trading partners should take the opportunity to consider implications within their own trading relationship and build plans to help facilitate step change improvement in 2012 and beyond.

## Winning in January 2011 Review

### Results -January 2011

ECRA has again this year undertaken a data based approach to reviewing service performance levels from retailer distribution centres to stores for the period over Christmas and New Year and the month of January 2011.

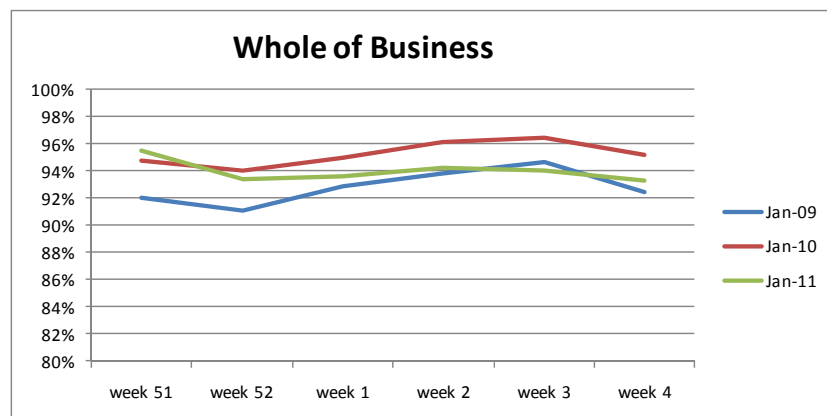
The data capture was undertaken with the collaborative support of retailers; Coles Group, Metcash Trading and Woolworths Limited, and, in addition, the Case Studies which follow were supported by several FMCG suppliers across a broad range of product categories.

The retailers have tracked outbound service levels (OBSL) from their distribution centres to their stores for 2008/09, 2009/10 and 2010/11 to facilitate performance comparisons. This data was provided for both high level business splits shown below (Ambient Grocery, General Merchandise, and Perishables) as well as for several specific categories which were of particular interest through the summer period (see appendix 2).

Whilst results varied by retailer and by category, the consolidated data provides insight into the top-line results and industry trends.

The legend for the charts is as follows:

- Horizontal axis = week of year. Week 51 aligns to Christmas week, 52 to New Year week and 4 to Australia Day week.
- Vertical axis = percentage of cases ordered by stores which the retailers were able to supply for the week in question.



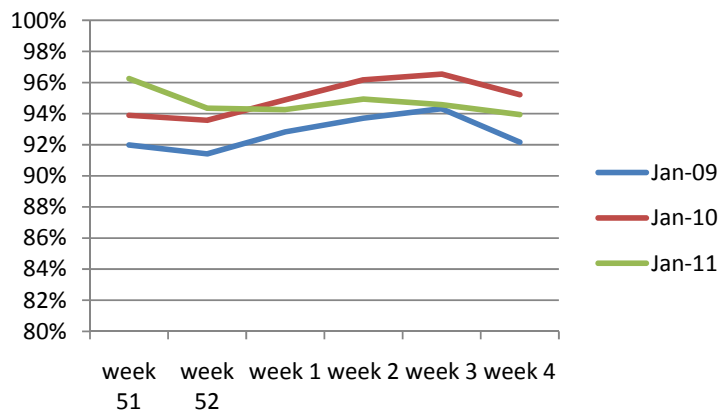
\*chart shows consolidated Ambient Grocery, GM & Tobacco and Perishables results

### Key Results

- For consolidated retailer whole of business data, OBSL performance fell in comparison to January 2010, in spite of a strong start in the lead up to Christmas.
- Performance exceeded 2009, but gave up around half the gain experienced in 2010

## Winning in January 2011 Review

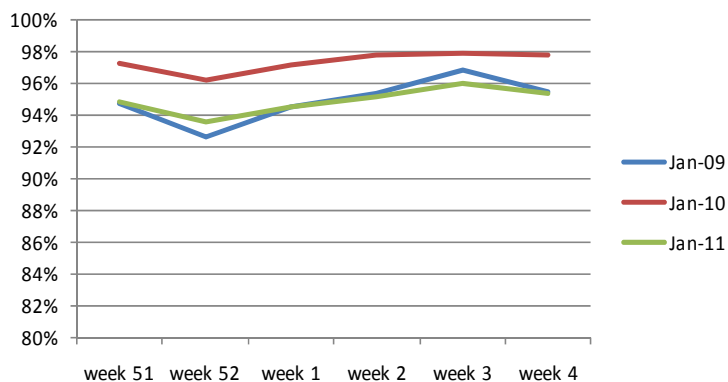
### Ambient Grocery



#### Key Results

- Ambient grocery OBSL started strongly before tailing off.
- Less pronounced swings in OBSL versus previous

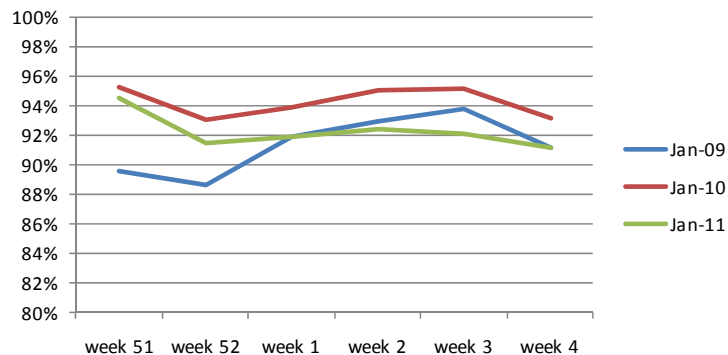
### General Merchandise & Tobacco



#### Key Results

- GM gave up all the gains experienced in 2010 and reverted to a near mirror of 2009.
- Flat OBSL in the 94-96% band

### Perishables



#### Key Results

- Generally perishables performed poorly in 2011 in comparison to past years and to other categories



## Case Studies -January 2011

The following case studies, compiled and produced with the organisations involved, give an insight into both suppliers' and retailers' *Winning in January* planning, results, collaborative efforts, and learning's to be reapplied in advance of next summer. Special mention is also made regarding the impacts on businesses from the Queensland flood crisis this January.



### National Foods – *January as a catalyst for change*

**In a nutshell:** For National Foods, Christmas and January posed many significant business challenges, which the company recognises and is taking strong action to address moving forward.

**Planning and preparation:** National Foods undertook discussion with their retailer trading partners in the lead up to summer, mindful of the learning's from the previous year and in consideration of categories that had proved difficult in the past. Despite this, National Foods was unable to execute to the level they wanted, thus leading to a major refocus in 2011.

**Issues Encountered:** Of particular concern was the capacity to manage 'short shelf life/long lead time' items, such as Specialty Cheeses which have a long maturity time - if planning is not extremely accurate it is impossible to speed manufacture to fill the gap. Improving forecasting of such categories is a vital component of the future strategy. Conversely, categories such as Milk with rapid production capabilities saw very high service levels this year.

**Collaboration:** Whilst National Foods appreciate that there may be changes that their trading partners could make to help ensure availability in January, the company recognises the need to make the requisite internal changes required to get its 'own house in order' as the priority for 2011.

**Changes planned for next year:** National Foods is making internal changes designed to bring closer alignment to retail trading partners. This includes the development of new roles, internal process reviews, and investment in manufacturing. The intent is that both organisational and process enhancements will support supply chain excellence and deliver significant improvement to service.

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**The Queensland Floods:** National Foods is extremely proud of its efforts to support fellow industry suppliers, retailers and shoppers during the Queensland flood crisis. This involved supporting competitors and retailers to ensure that shelves remained stocked with product such as fresh milk, and demonstrated how the company is able to respond with excellence in times of need.

**Key Learning/Advice to Industry:** National Foods realise that “we need to be winning every month” and that the attention that the industry has established under ECRA’s *Winning in January* program provides an excellent focal point where suppliers and retailers can identify opportunities, test changes and learn together to deliver improvements in planning and execution which can then be applied year round.

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### *Coles\_– Industry must become flexible, responsive and shopper centric*

**In a nutshell:** Despite gains resulting from Coles' process changes, supplier service performance and flexibility suffered after New Year. Moving forward Coles will request more responsive capability and shopper centric focus from its supplier base.

**Planning and preparation:** Coles engaged suppliers in over a 190 collaborative planning meetings in preparation for Christmas and January. The granularity of engagement was tailored based on seasonal sensitivity of products.

Coles roll-out of Easy Ordering (Store Replenishment Program) facilitated far smoother inventory management between distribution centers and stores, which in turn alleviated much of the bottlenecks for inbound deliveries experienced by suppliers in previous years despite some delay due to lack of booking slots into some DCs. This also helped Coles establish outbound service levels to stores which were "the best seen in years" into the Christmas period.

**Issues encountered:** In spite of the efforts noted above, and strong service in Christmas and New Year weeks, service from suppliers fell away in January, giving back much of the improvements seen last year. Coles noted that many suppliers lacked the capability and flexibility to react to the sharp increases in sales volumes in a period which is renowned for high levels of variability in shopper purchasing patterns. Coles felt that many suppliers saw the agreement of forecast volumes as being "the end of the game" and as such were unable to react to forecast variance and thereby provide stock demanded by shoppers.

**Collaboration:** Coles held meetings with a broad range of suppliers, tailored to seasonality of products. Forecast volumes and timings were calculated and agreed. Generally the approach was similar to the previous year, but with greater level of effort and involvement invested.

**Changes planned for next year:** Coles are clearly frustrated at the outcomes delivered in January 2011 after the strong improvement of 2010 and will be questioning, and seeking agreement to, suppliers' commitment to build flexibility of supply as an imperative. The industry needs to continue to invest effort in delivering quality forecast accuracy BUT not at the expense of flexibility and responsiveness to the shoppers' requirements.

**The Queensland floods:** Whilst noting that some suppliers were directly impacted by flooding of their own operations, Coles recognised that the industry players rallied strongly to overcome the crisis in Queensland. Coles expressed that they received great support from suppliers in this period and queried why this couldn't be the case at all times.

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**Key learning/advice to industry:** Coles' key learning's included the need for its supplier base to be flexible in production and supply capability, not to rely on forecasts being correct, and to recognise that for Coles "not being able to supply is not an option". Coles challenge to senior executives in the industry is to be personally aware of actions being implemented by their business to drive a flexible product supply at this time of year, and to acknowledge that *Winning in January* is not going away – in fact it needs to become the normal way of doing business driving increased sales and profit for suppliers as well as Coles.

## Winning in January 2011 Review



### *Woolworths – Complacency in January must be urgently addressed*

**In a nutshell:** Despite a strong run into Christmas and great collaboration in the Queensland flood crisis, the lessons learned in 2010 were not broadly applied by suppliers once January arrived, to the great frustration of Woolworths.

**Planning and preparation:** Woolworths engaged earlier with suppliers than in previous years when planning for Christmas and January. 2010 was reviewed and key learning's incorporated in the plans for 2011 as part of a continuous improvement process.

**Issues encountered:** Woolworths feel the lessons learned in 2010 were not fully applied by suppliers and that there was complacency in the market, with many suppliers' service levels slipping back to a pre 2010 level. Whilst the Queensland flood situation was a recognised impact, Woolworths felt frustrated when supply rates fell well short of what was required. Woolworths believe a lack of focus and complacency was evident within their supplier base.

**Collaboration:** Planning meetings were held with suppliers in advance of the Christmas/January season. Where issues had been encountered in 2010, Woolworths sought to embed learning's from these issues into plans with suppliers.

**Changes planned for next year:** Woolworths will target those suppliers who had service level performance issues in 2011 and seek to formalise agreements in planning for 2012 with senior level executives from suppliers. Further effort will be placed in the area of contingency planning, both with suppliers and internally.

Woolworths will be addressing a broad range of issues with suppliers ahead of January 2012 and as part of the formal post event assessment.

**The Queensland floods:** Woolworths acknowledged a great response from suppliers and their willingness to work together during this natural disaster. The collaboration was "absolutely brilliant" in terms of communication and sharing resources for mutual benefit.

**Key learning/advice to industry:** *Winning in January* proved frustrating for Woolworths in 2011. Following a run in to Christmas which was considered "the best ever" and anticipating a great January, service levels fell away thereafter. Particular frustration was felt as supply rates deteriorated and the time taken to recover was seen as far too long.

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### *Sanitarium – Christmas, January & Back to School volatility a major challenge*

**In a nutshell:** Even a longtime 'best in class' supplier in the summer period like Sanitarium can be dramatically impacted by major sales volatility coupled with external adversities in January. This was the case in 2011 and has already lead to internal process strengthening for 2012.

**Planning and preparation:** Sanitarium followed its usual internal planning approaches in the lead up to summer and also up-weighted safety stock levels and minimised plant closures. External plans were managed in dialogue with retailers as well as with upstream suppliers.

**Issues encountered:** Sanitarium faced a succession of three major instances of demand significantly exceeding forecast – an extremely strong Christmas sales period followed by large over and above retail promotional demand and then a much higher 'Back to School' demand than in previous years. The impact on supply was exacerbated by a strike at Sanitarium's carton supplier affecting production capacity, as well as the flooding in Queensland.

**Collaboration:** The increased safety stock and close focus with upstream suppliers helped reduce the severity of the impacts from the issues Sanitarium faced in January.

**Changes planned for next year:** Sanitarium has already reviewed several key internal processes when looking ahead to next summer. More detailed and cross-functional item level forecasting will be implemented between Sales, Supply Chain and Planning and this will occur earlier in the year than previously. A robust approach to evaluating late notification promotional opportunities will consider any impact of decisions on 'Back to School' supply.

**The Queensland floods:** Sanitarium's Brisbane factory was impacted directly, losing over a week's production capability which takes considerable time to make up. Deliveries into customer DCs were also impacted by road closures and diversions. Sanitarium's staff went 'above and beyond' to implement workaround solutions – for example when unable to print dispatch documents locally due to power cuts in Queensland, NSW staff performed extra work to assist their colleagues.

**Key learning/advice to industry:** With the volatility experienced in 2011 not necessarily going to change in the future, Sanitarium view the implementation and communication of an optimal escalation process with trading partners as being an opportunity for industry players moving forward. This would aim to address emerging (particularly cross-functional) issues early and help mitigate the impacts of potentially major stock availability issues to the benefit of both trading partners.

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### *Unilever – Tactical approaches outweigh process improvements in January*

**In a nutshell:** Improvements in internal forecasting processes and retailer planning rigour continue, however, the intensity and frequency of promotional activity in January drove sales volatility in excess of what could always be managed, with an obvious flow-on impact to availability.

**Planning and preparation:** Unilever continued developing its Winning in January program - an approach initiated in 2009. In 2010, particular focus was given to driving improvement in rolling forecasts across the end of one year and into the beginning of the next.

**Issues encountered:** Promotional volatility and the ensuing impact to supply capability was the major issue encountered this summer. High frequency and the increasing depth of promotion (e.g. 50% off pricing), coupled with tactical approaches such as 'comp' pricing between retailers and the scheduling of competing products in categories within retailers meant that actual sales often varied markedly from forecast - greatly impacted inventory levels (too much/too little) and availability.

**Collaboration:** The alignment of retailer planning systems to the forecast horizons and 'lock out' periods required by suppliers improved in the lead up to Christmas 2010, in turn facilitating better opportunities for suppliers to plan and to commit agreed stock levels against forecast.

**Changes planned for next year:** As well as further developing the internal planning processes implemented over the past two years, issues to be reviewed include enhanced resource planning and working with trading partners to better understand and mitigate the impacts of promotional tactics on capacity to deliver optimal availability.

**The Queensland floods:** Ice cream and drinks facilities were directly impacted by flooding. Road closures and diversions affected deliveries. Obviously the flow-on effect was an extremely negative impact to product sales during the period.

**Key learning/advice to industry:** If there is to be improvement in availability, which all parties want, then it is critical that retailers and suppliers openly review the impacts of decisions made in January 2011 together. Then, if there is agreement that availability and service is to be of critical importance, it needs to be clearly understood by stakeholders which tactical actions impact the ability to achieve this goal and how risks to the goal can be mitigated. Additionally in terms of logistics, there is significant opportunity to improve delivery slotting processes to ensure loads can be delivered on time.

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### *Coca-Cola Amatil– Strong Winning in January plans not tested because of poor weather*

**In a nutshell:** A rigorous companywide program at Coca-Cola Amatil (CCA) designed to win in January ensured strong levels of supply, but the weather failed to come to the party in Summer 2010.

**Planning and preparation:** CCA took all their learning's from 2010 into account when planning for 2011. Following a company debrief session post January 2010, internal meetings were regularly held to focus both state and national personnel on the Winning in January (and Winning with Promotions) program.

Customers were engaged earlier with particular focus on promotional planning and weather impacts. Additional fleet capacity and changes to key manufacturing lines enhanced flexibility, complemented by an earlier inventory build. Additional structure was built around operational roles to optimise the links between demand and supply.

Issues encountered: Whilst service levels to customers were extremely high throughout the period, the weather was inconsistent – to the degree that summer was hardly noticeable for many regions.

**Collaboration:** CCA met with retailers earlier in 2010 to plan for January 2011. Opportunities were taken to utilise ECRA Winning with Promotions events and discussions to revisit January plans. Collaboration, both internally and with upstream suppliers, was intensified in the lead up to January to ensure all stakeholders were aligned to the plans.

**Changes planned for next year:** CCA will be continuing to pursue the strategies employed in planning 2011 as many of these were not stress tested due to the weather. CCA will be reinforcing these plans by continuing close collaboration with customers and through ensuring necessary reactive capacity is built into the supply chain.

**The Queensland floods:** The impact was significant with manufacturing plants directly affected and so too upstream raw and packaging material suppliers. CCA enacted its emergency protocols and micro managed the situation with customers and with government (CCA supplies emergency provisions such as water and canned foods to crisis areas). In total CCA supplied more than 600,000 bottles of water and 85,000 kilograms of SPC Ardmona product to devastated communities in Queensland. Product was supplied from interstate, though road closures remained an issue.



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### *Metcash – looking to work with key suppliers in January 2012*

Metcash prepared for Winning in January by reviewing service level performance of its suppliers to facilitated dialogue and information sharing to help identify and address the underlying issues.

Overall, Metcash recognised that there is still room for further improvement. To achieve this improvement, Metcash will be rolling out the successful elements of its communication and data/information in preparation for January 2012. Metcash will also be looking to work with suppliers in key categories for next summer in an ongoing effort to raise the bar in January 2012

## Recommendations

A significant amount of work has been done in the industry to improve product availability in January. The ECRA data collection shows that there is still a lot of work to be done to deliver the required step change.

Analysis of the data alongside the case studies highlights important areas that businesses can work on to drive up service levels. These areas can all be supported by effective collaboration across the supply chain and importantly should deliver improvements not just in January but for the remaining 11 months of the year.

In 2009 ECRA identified seven areas where opportunity existed to deliver improvements. These were detailed in the report *How to Win in January* and are listed below for reference. The seven steps remain as pertinent today as they were 2 years ago.

The unusual events surrounding January 2011 highlighted the particular importance of two of the seven focus areas for business, they are:

- Contingency planning, and
- Operational flexibility.

The standout for January 2011 was the industry response to the widespread flooding across much of the country, in particular Queensland. Contingency planning, based on rigorous and vigorous risk assessment, assisted companies identify what to do when the plan becomes de-railed. However it appears that the same level of contingency planning was not applied when service levels faulted and supply was jeopardised.

Operational flexibility to respond and adapt to volatile demand considerations, particularly the promotional instability, proved a struggle for many, resulting in missed sales throughout the period.

A third and significant factor not detailed previously, but worth noting, is that of senior business leaders' engagement in the process of *Winning in January*. Retail trade partners expressed concern over senior business leaders buy in, noting a level of complacency with lessons learnt not applied in 2011. Suppliers and manufacturers can anticipate an escalation of discussions about *Winning in January* to more senior levels for 2012.

Finally, promotional activity will continue to test the responsiveness of the supply chains. Recognition from both sides of the trading relationship of the impacts of poorly planned and executed promotional activity, and/or late changes to agreed promotional plans, is essential.

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### The '7 Steps' – Key Focus Areas

1. Plan, plan, plan and plan again.
2. Focus on one number.
3. Daily responsiveness.
4. Understand your trading partner.
5. Operational flexibility.
6. Communication plan.
7. Contingency planning.

## Winning in January 2011 Review

### Next Steps

Retailers and manufacturers will continue to pursue improved availability, both within their own organisations and with each other. The following are several areas to consider during the review process and in preparation for the future.

#### Next steps for your business - Retail and Supply



- **Review**
  - industry data against specific company information
  - with key trading partners, upstream and downstream
- **Identify**
  - internal weaknesses
  - root causes
  - trading partner issues
- **Plan**
  - Use the 7 steps in planning
  - Recognise the power of early engagement
  - Collaborate before, during and after

If industry partners are to be truly responsive to shoppers' demands they need to work together to promote high service levels whilst delivering improved efficiencies.

Improvement in supply does translate to improved in-stock position in retail stores and ultimately retailers and suppliers are all working towards the goals of - **right stock, right place, right time.**

ECRA will again actively pursue industry level improvements, and will formally report January 2012 results as part of this continuum of effort.

## Appendix 1

### Winning in January Tools

Throughout 2009 and 2010 ECRA worked with representatives from leading retailers, wholesalers, manufacturers and suppliers to create a range of user friendly tools to assist companies deliver improved service levels specific to January. Indeed the key learnings from this initiative can be equally applied to the other eleven months of the year.

Key challenges, issues and opportunities were identified in *How to Win in January*.

Within this report, seven key areas provide a broad framework on which to focus activities both within an organisation and between trading partners.

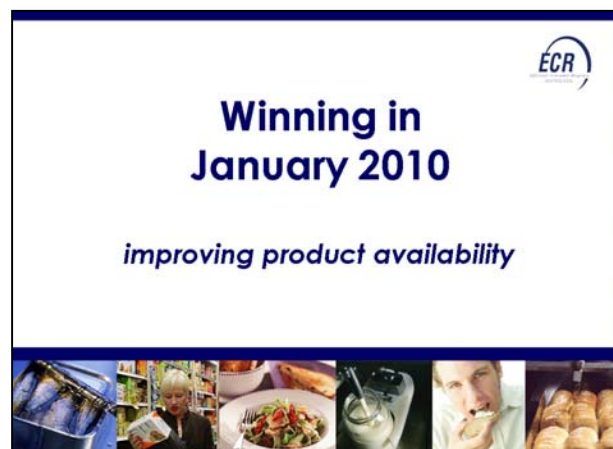
These focus areas are explored in detail in the report which is available at [www.ecraustralasia.org.au](http://www.ecraustralasia.org.au)



To further support improvements, in 2009 the industry developed a toolkit to provide guidance for improvements.

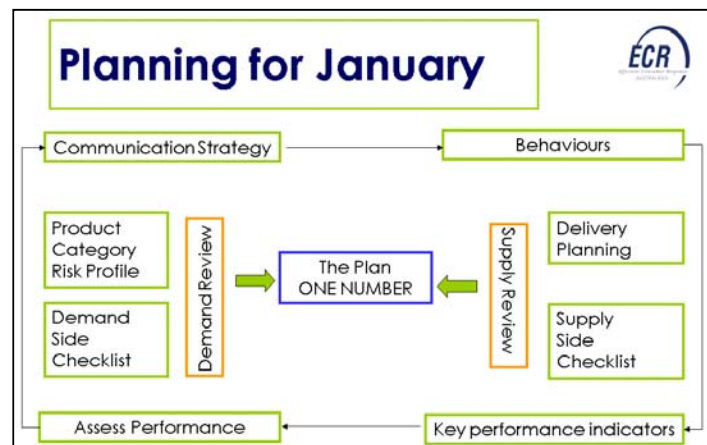
The toolkit is an adjunct, not an alternative, to detailed internal and trading partner planning.

The toolkit, *Winning in January 2010*, still very relevant in 2011, can be downloaded from [www.ecraustralasia.org.au](http://www.ecraustralasia.org.au)



## Winning in January 2011 Review

The toolkit includes a roadmap, checklists, scheduling documents, contacts lists and a series of templates for capturing and tracking key business metrics and information.



## Appendix 2

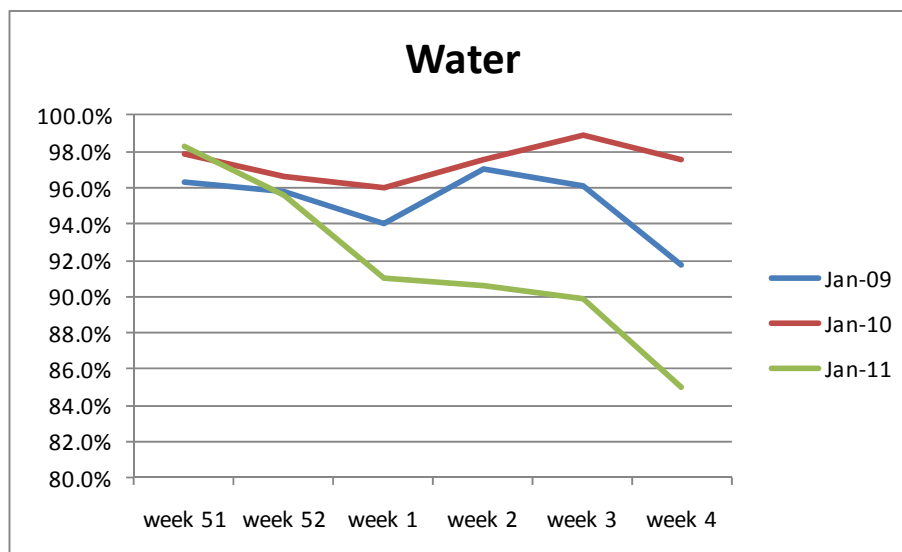
### Retailer Results Summer 2011 – Category Level

Coles, Woolworths and Metcash provided data depicting their OBSL for several key seasonal categories from DCs to stores for the last two weeks of 2010 (weeks 51 and 52) plus the four weeks of January 2011 (weeks 1 to 4). This data was also provided in 2010 and 2009.

The information was provided to ECRA in weekly buckets identifying the number of cases (i.e. order multiples of product) delivered to stores nationally against the number of cases requested. ECRA consolidated the data to protect individual retailer confidentiality as displayed in the charts below.

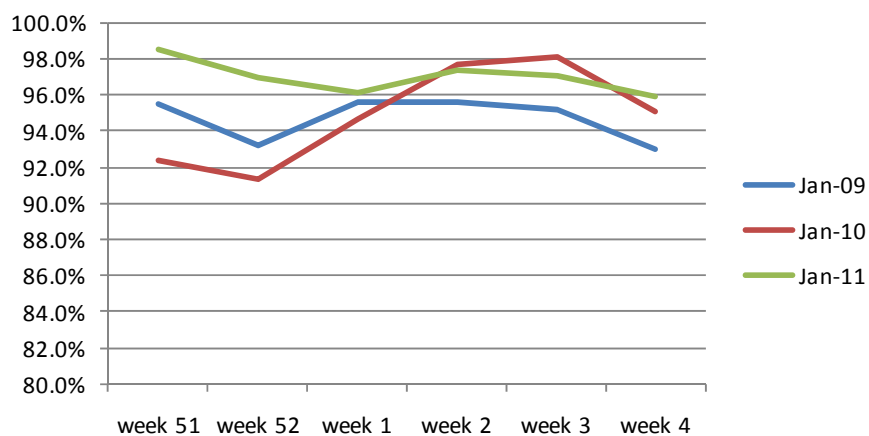
The legend for the charts is as follows:

- Horizontal axis = week of year. Week 51 aligns to Christmas week, 52 to New Year week and week 4 to Australia Day week.
- Vertical axis = percentage of cases ordered by stores which the retailers were able to supply for the week in question.
- Green Line = January 2011, Red line = January 2010, Blue line = January 2009

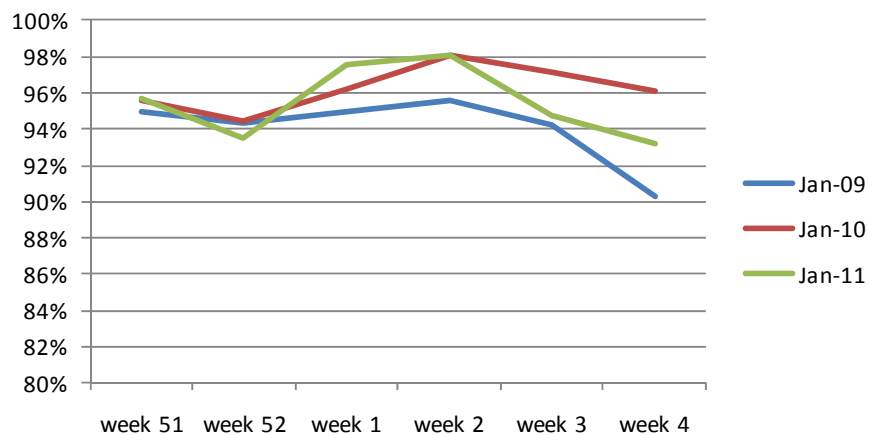


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### Carbonated Soft Drinks



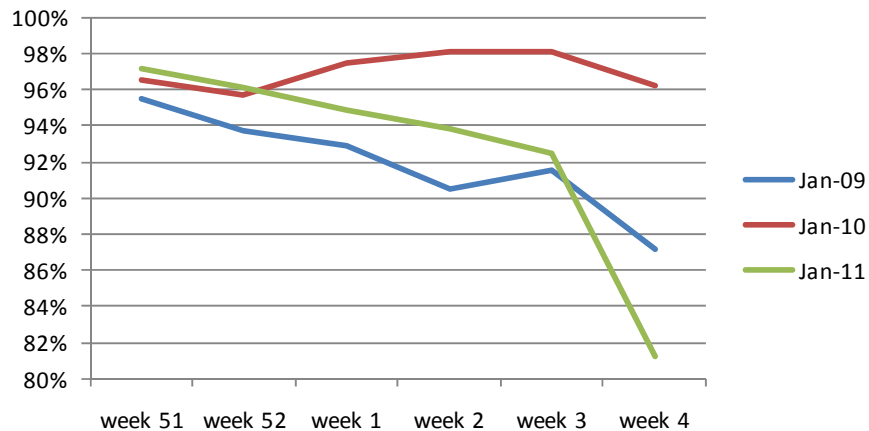
### Long Life Juice / Cordials



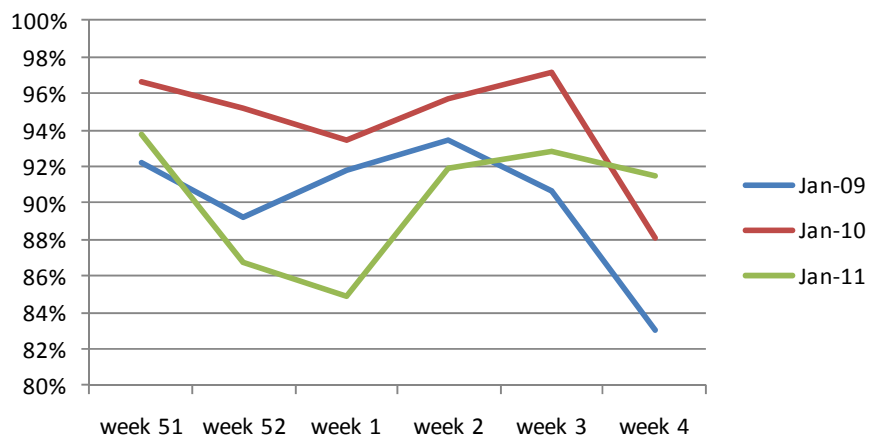


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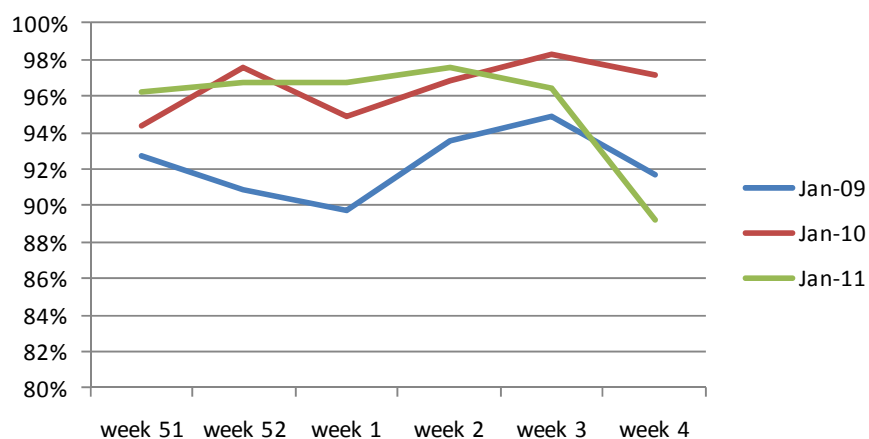
### Breakfast Cereal



### Potato Chips & Snack Nuts

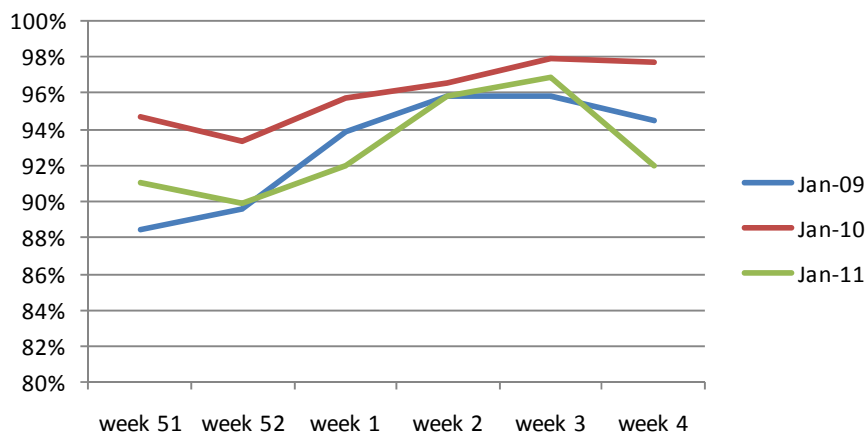


### Snack Bars (Muesli/Fruit etc)

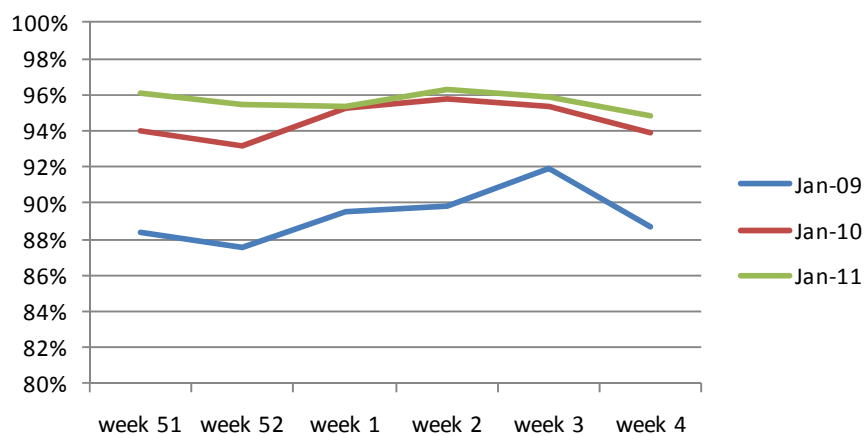


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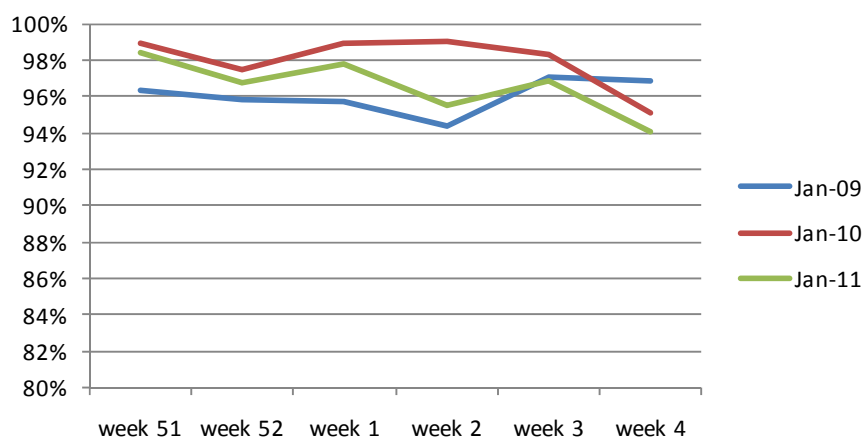
### Confectionery



### Biscuits

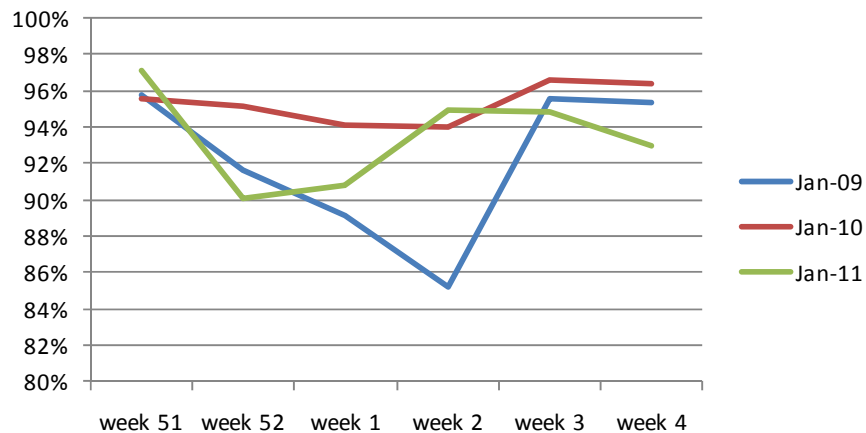


### Facial Tissues

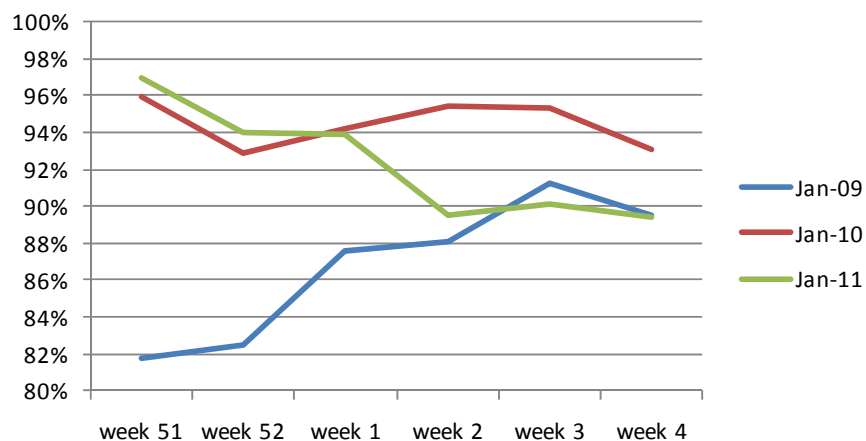


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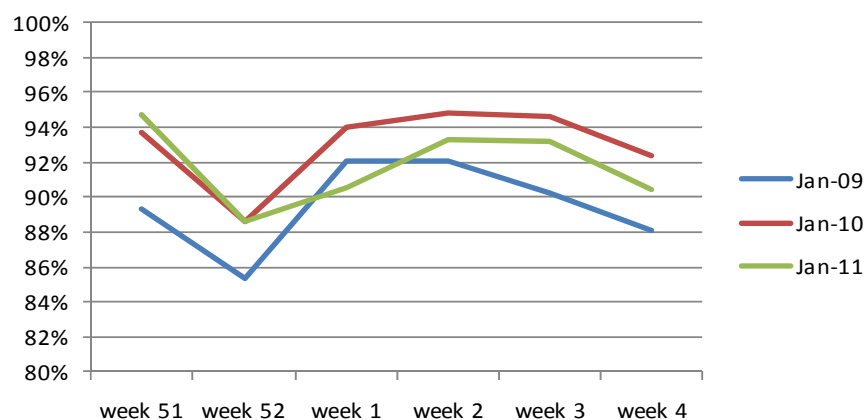
### Toilet Rolls & Paper Towels



### Yoghurt / Cream/ Dairy Snacks

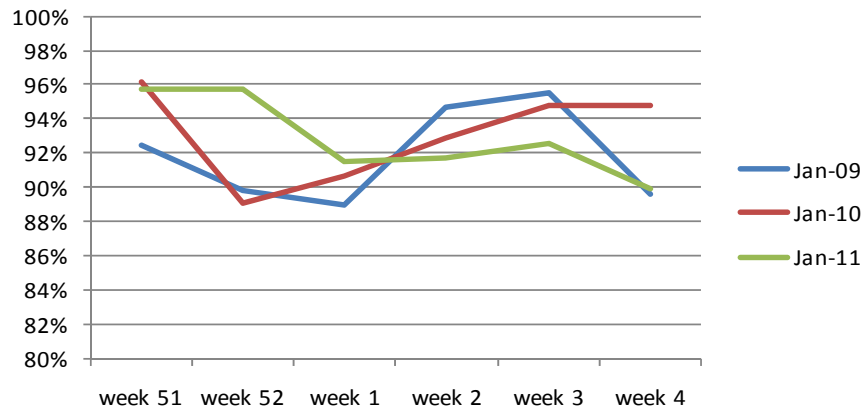


### Cheese



## Winning in January 2011 Review

### Chilled Juice



### Ice Cream

