

Back Room Study: Gift Orders Carry Hidden Costs

Study reveals using non-standardized systems is costing time and money.

by Eric Grimm

ONE FINDING IN THE INDUSTRY Back Room Study is that about 25% of gift orders require extra processing time in receiving because of incomplete labeling and packing-slip information. Problems include lack of Universal Product Codes, pricing information, original purchase-order references, invoice numbers, and labels, plus damages. The time it takes to resolve gift problems averages about 2.5 minutes *per line item*, but varies considerably, with 10 minutes per line item or longer not unusual. Some retailers reported gift-order problems as high as 75%-80% (32% reported problems 26%-75% of the time, and 2% had problems 75% of the time or more).

When you consider some retailers reorder gift product 20 to 70 times monthly, and order frontlist gift product on average 36 times annually, the amount of wasted time and resources can be significant.

Generally, direct-to-supplier gift orders are processed manually because not all gift companies have adopted industry operational standards such as use of Electronic Data Interchange (EDI) e-commerce, shipping-label standards, and others. Most retailers use EDI with wholesalers and distributors, but since not all of them sell gift products, much gift ordering is supplier direct.

Retailers have said greater use of EDI, especially the electronic invoice, could cut as much as 80% of back-room processing time. EDI would create a process standard. Each invoice would include information often not included in current packing slips and invoices, such as original purchase-order references, UPCs, etc. The invoice is closely linked to another electronic document, the Purchase Order Acknowledgement, which informs retailers that their order was received and which items will be shipped, plus prepares for invoice reconciliation. Electronic documents could significantly reduce time

now spent manually receiving product and reconciling purchase orders.

Another finding is that shipments of *all* product types have significant levels of quantity discrepancies apart from the problems discussed above. About 6% of book and music shipments, and about 10.5% of gift shipments have a quantity discrepancy that requires contacting the vendor. Generally, resolving these receiving discrepancies takes 5-10 minutes per shipment.

The Back Room Study was an initiative recommended by the industry's supply-chain committee. In unprecedented industry cooperation, retailers and suppliers co-sponsored the research, including on the retailer side the Covenant Group, The Parable Group, and on the supplier side EMI CMG, Pubnet, Spring Arbor Distributors, Thomas Nelson Publishers, Tyndale House Publishers, Word Entertainment, and Zondervan. CBA also sponsored the project.

Douglas Popken of operations-research firm Systems View, Colorado, conducted the study. Popken visited nine Christian stores by sales-volume category (low [less than \$750,000], medium [\$750,000-\$2 million], and high [\$2 million and more]). These stores used various industry POS systems.

Popken's findings identify problems and what can be done about them, such as gaining broader compliance with industry standards. While standardized systems benefit all types of retailers and suppliers, independent retailers especially would benefit from quicker order-processing and cycle times. Fewer personnel costs to process orders and less inventory needed to produce same or better sales and improved inventory turns would result. Standardized systems also save time and money training staff because simplified processes are easier to learn.

MORE FINDINGS

Among other research findings:

- While process differences exist between stores with

Back Room Study, Part 1

different sales volumes, Popken said it's striking how similar the processes are.

- All the stores Popken visited use EDI with distributors, but few use it with suppliers, for various reasons. They may not have operational capability to process EDI orders, or they may have to make significant operational changes and aren't willing to invest in such modifications.

- Backlist ordering is relatively speedy, but frontlist ordering can take from 30 minutes to six hours each, and many such orders are made throughout a year.

- Retailers aren't confident in POS systems' forecasting capabilities and either don't use POS-suggested orders or forecasts or spend considerable time reviewing or modifying them. Personal judgment, experience, and intuition play a larger role in ordering than POS reports—about 64% of retailers don't use POS min/max reports as ordering tools, for example.

- Inventory management is a significant problem caused primarily by minimal POS support in customer-demand visibility and forecasting. POS deficiencies generate large amounts of hidden costs to stores—particularly in excess inventory holding costs and lost sales when items are out of stock.

- Entering frontlist product data into POS systems is time-consuming because no common way exists to provide product information for computer upload, although the solution could be as simple as vendor-supplied electronic files.

The industry's Assisted Inventory Management task force has been testing use of an EDI sales catalog and price document, the SC 832, which can be uploaded into POS systems that accept it. The document transmits all essential product information. The process and testing was developed under the leadership of David Walton of IBID/IRT

and Gary Miller, Provident Music Distribution information technology director.

Popken suggested suppliers might develop a simple file-transfer or disc-exchange system so retailers or sales reps could download product into POS machines. Some POS systems use the *Christian Books & More* database or Spring Arbor Distributors' database to upload data. However, Popken found most retailers aren't aware of new product information until they actually receive product in the store—and many still manually update their POS systems.

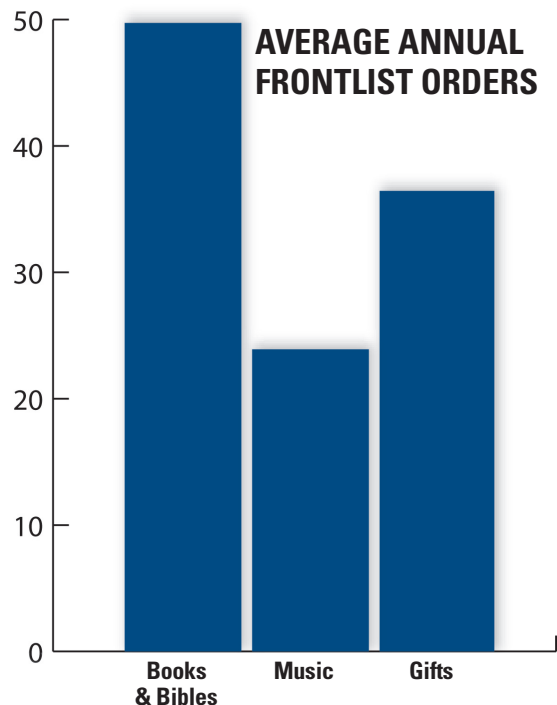
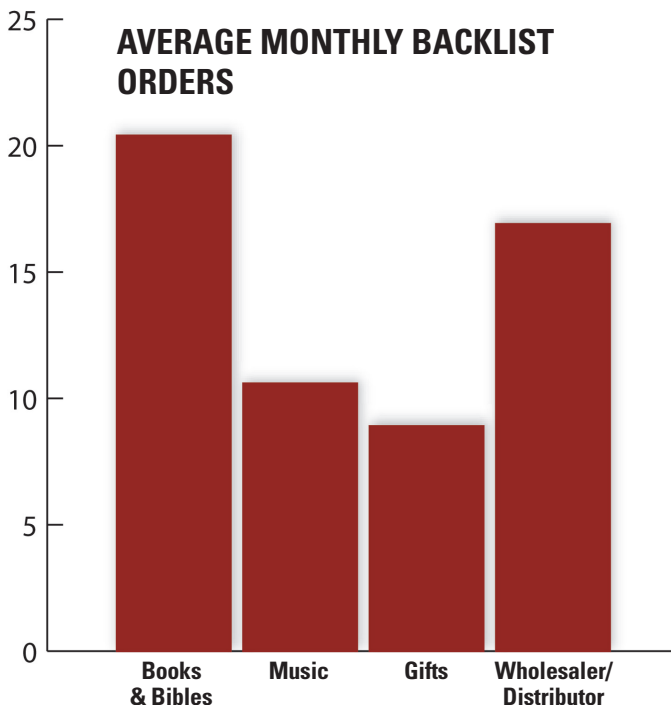
Other retail channels have been developing such standardized data-exchange systems, called data registries. These sophisticated systems allow data to be synchronized like a Palm Pilot does.

Study recommendations will suggest ways to lower administrative and operational costs, plus improve margins and profitability—critical issues identified in an industry strategic summit two years ago and still plaguing retailers. Savings might also allow retailers to reposition or hire people for sales and customer-service positions instead of back-room work.

The research is being presented to the Christian Retail Solutions Committee, which is the recently merged Supply Chain Management Committee and the Christian Product Standards Group. The group's steering committee will analyze research findings and respond to Popken's recommendations. The steering committee will prioritize goals and objectives and may create ad hoc teams to achieve them.

Look for Part 2 of this three-part back room study in next month's issue. **AR**

Eric Grimm, CBA's retail technology strategist, is co-chair of the industry's Christian Retail Solutions Committee.



Backlist orders are generally speedy, retailers report, but frontlist orders can take from 30 minutes to six hours each. As retailing moves more to demand-side replenishment

through category management and assisted inventory management, the traditional ordering process may see significant changes that reduce time and costs.

Back Room Study: \$18 Million Plus in Benefits

Savings, added sales could be generated by changing how retailers and suppliers do business.

by Eric Grimm

THE INDUSTRY BACK ROOM Study identified more than \$18 million in potential Christian Retail Channel benefits if retailers and suppliers could change how they do business. Developing industry-wide collaborative planning, forecasting, and replenishment (CPFR) practices and improving inventory management would result in greatest benefit, more than \$14.5 million in savings and added sales.

Douglas Popken, operations research engineer and Systems View president, conducted the research, which involved visiting nine independent retail stores of various sizes and sales volumes. It also included a survey of CBA member retailers to confirm store-visit findings.

“Things that struck me: The people working at the stores are very dedicated and hard working, but currently don’t have all the needed tools and knowledge to achieve their full potential.”

—Douglas Popken

Popken said, “Things that struck me: The people working at the stores are very dedicated and hard working, but currently don’t have all the needed tools and knowledge to achieve their full potential.”

Christian retailers have a lot of knowledge about their

stores and their customers, Popken clarified, but they need more managerial expertise and information—vital requirements to keep going and distinguish Christian retailers in a tough marketplace.

FOUR POTENTIAL IMPROVEMENTS

Popken identified from the study means for four potential improvements:

1. An improved, automated inventory-control program, enabling CPFR among retailers and their suppliers, could create an annual net benefit of more than \$14.5 million.

2. Automated entry of new-product information into POS systems, which could create a net annual benefit from \$838,722 to more than \$2.5 million—anywhere from a few hundred dollars to more than \$7,000 per store depending on sales volume.

3. The approximately 25% order/shipping discrepancy rates for gift products decreased by half, which could create more than \$540,000 in annual benefit.

4. Overall order/shipping discrepancy rates decreased by 50% to gain more than \$100,000 in annual benefit.

CPFR would require more cooperation among retailers and suppliers in such areas as shared sales and inventory information, more open and sophisticated forecasting capabilities, and mutually agreed-upon replenishment systems (see Operations & Systems column, page 16). Popken recommended implementing some of the Voluntary InterIndustry Commerce Standards Assoc. (VICS) guidelines to help trading partners work more collaboratively. The guidelines set expectations and evaluate sales and operational performance.

BETTER FORECASTING

Another key study recommendation is developing more effective forecasting tools for retailers. Popken found that current POS systems don’t have sophisticated forecasting capabilities that take into consideration seasonal factors,

demand trends, product life cycle, mark-down/sale, and other consumer-demand fluctuations.

Christian-retail POS systems observed in the study use “min/max” inventory-control parameters primarily to manage backlist stock, and emphasize past sales demand rather than future demand. Or systems use a “strata” approach, calculating demand based on a given number of units—which also implies a “forecast” equivalent to historical demand, Popken noted.

Popken suggests combining CPFR with a yet-to-be-developed inventory-planning and -control system. This system would be an enhanced version of new inventory management software being introduced in the industry, such as CBA’s Above The Treeline, The Parable Group’s Collaborative Inventory Optimization, or Bookstore Manager’s EyeOnInventory. The recommendation is to improve such software systems with more sophisticated forecasting tools, then use the information to better manage ordering and replenishment.

Automated product data entry into POS systems could be as simple as developing a common supplier standard to list product information and encouraging suppliers to adopt the standards. Suppliers then could create a file—possibly from a sales-rep order—that would be copied into POS systems. Most retailers work with manually input product information, either because their product databases don’t have information by the time orders come in or the information isn’t supplied to database providers by the time first orders for products are made.

Ordering and receiving gift products is a major time-waster for retailers because nearly 25% of gift orders have problems—either discrepancies from the original purchase order, lack of identifying information on packing lists and invoices to reconcile POS orders, or other issues that require retailers to manually correct problems.

All product shipments have similar discrepancies, but at a much lower rate, according to Popken’s findings.

EDI CERTIFICATION

Developing a supplier certification program may result in procedures to correct these problems. It also would serve as a baseline or best-practice measure that retailers and suppliers could use for self-evaluation and continuous improvement over time.

While the industry’s electronic data interchange (EDI) e-commerce certification is leading the way toward improved processes, Popken suggested EDI should become

Developing a supplier certification program...would serve as a baseline... for self-evaluation and continuous improvement over time.

part of an overall certification process that would include targeted improvements such as automating entry of new-product information into POS systems.

EDI is a foundational enabler for such systems because many of the electronic documents needed for standardized information exchange already exist. The publishing industry has been developing Online Information Exchange (ONIX) as the standard for book information exchange. However, no such standard exists for gift and other products. VICS and GS1, a global commerce standards organization, are doing initial work in this area. Pubnet, the publishing industry’s EDI provider, has also been exploring “general merchandise” data standards to help college bookstores process non-book merchandise transactions and information.

ELIMINATE ERRORS

Popken also recommended store owners consistently work on store improvement. Retailers should better monitor workflows and processes and continuously strive to

improve them, he said.

“The focus needs to be on eliminating possible sources of error—automating manual processes; careful selection of vendors, considering not just price but quality, reliability, and timeliness,” Popken recommended. He also called for more cycle counting for improved inventory accuracy, and increased use of error diagnosis and tracking tools to discover which solutions could bring greatest rewards.

The Christian Retail Solutions Committee, which requested the study, is reviewing the findings to establish a plan of action to solve identified problems. The study was funded in an unprecedented cooperative effort that included CBA, the Covenant Group, The Parable Group, EMI CMG, Pubnet, Spring Arbor Distributors, Thomas Nelson, Tyndale House Publishers, Word Entertainment, and Zondervan. **AR**

CBA’s retail technology & strategy manager, Eric Grimm, is chairman of the industry’s Christian Retail Solutions Committee.

Researcher Has Extensive Process Analysis Background

Douglas Popken, who conducted the industry’s Back Room Study, is a former U.S. Air Force officer and business-school professor with nearly 20 years experience in business, consumer, and military operations research applications and consulting. He holds a doctorate in operations research from the University of California, Berkeley, and a bachelor of science and engineering master’s degrees in operations research from Cornell University.

Popken has developed simulation models used to improve business processes for major corporations. He also has conducted pioneering research to apply advanced statistical and signal processing algorithms to predict customer behaviors more successfully than econometrics and

time-series analysis.

Prior to becoming a full-time consultant in 1996, Popken was project manager and principal investigator for Sumaria Systems’ advanced software research and development. Previously, he was an assistant professor in the Dayton School of Business department of management information systems/decision sciences.

While serving in the U.S. Air Force, Popken developed new simulation modeling techniques for rapid analysis of military logistics capability, later adopted as the service’s modeling standard. His work in distribution, warehousing, and transportation applications is credited with saving the Defense Logistics Agency millions of dollars.

CRSC Sparked to Action

Industry standards, supply-chain committee responds to research with demonstration plan, ONIX endorsements, and more.

by Eric Grimm

THE INDUSTRY BACK ROOM Study sparked action from various Christian Retail Solutions Committee (CRSC) groups to address supply-chain deficiencies and gain some of the \$18 million plus in estimated benefits identified in the pioneering industry research.

One of the most significant recommendations is for the industry to develop an improved, automated-inventory-control program and for retailers and suppliers to work more collaboratively to improve performance. Systems View researcher Doug Popken said these could create an annual net benefit estimated at more than \$14 million.

The CRSC steering committee discussed the research at its meeting during CBA Advance 2006 in Nashville and decided to test the findings. The group of volunteer storeowners and executives and supplier executives has asked for a proposal to conduct a yearlong demonstration program. As envisioned, the program would identify select retailers to participate and another control group of stores. Although details were still being worked out at press time, the idea is to have retailers and suppliers develop a collaborative plan, and create sales-demand forecasts that take into account seasonality, promotions, sales trends, and other factors. The goal is to optimize inventory performance by improving inventory turns, reducing out-of-stocks on key items, decreasing operational costs in both supplier and retailer business operations, decreasing returns, and freeing up more time for retailers to work more closely with customers.

Suppliers would work to coordinate initial fulfillment of new products and ongoing replenishment to test whether cost reductions might be gained in freight and logistics.

Popken said one of the keys to reducing transportation costs is to reduce the amount of returns in the supply chain. The Christian Retail Channel reports about \$70 million to \$75 million annual returns costs. Better inventory control and planning throughout the channel would help retailers buy the right amount of the right product at the right time. That would reduce inventory-carrying costs so retailers can get more return on inventory investment with

less stock, and, if more of higher-demand products were stocked, reduce industry return rates and costs.

USE SINGLE-SOURCE SUPPLIERS

The CRSC's distribution team is developing a statement to encourage small- and mid-size suppliers to fully use contract distributors and wholesalers to sell products into the Christian Retail Channel. It's believed that single solution would quickly address inefficiencies discovered in the Back Room Study—such as, lack of or incorrect documentation, inadequate product coding, inability to engage in electronic data interchange and standardized e-commerce, and other issues that require significant manual effort.

The research found about 25% of gift-product orders have some kind of discrepancy, ranging from quantities different from purchase order, no product codes (UPC/EANs), documentation problems, and others. However, the research also found all product types had some level of discrepancy that should be addressed to save time and cost.

ONIX IS THE STANDARD

The distribution team also endorsed the ONIX (Online Information Exchange) standard for data-exchange. That would partly address a study finding that large stores spend more than \$7,000 annually just inputting new-product data into POS systems. ONIX is a publishing industry standard, so wouldn't be able to immediately include other product types, such as gifts, music, or apparel. However, if POS providers have ONIX exchange capabilities, sales reps could format new orders so retailers could transfer it to the POS system before the order is received at the store.

Popken said retailers now must manually enter data, even though industry database providers have many new-product items included in their databases. One obstacle may be timing (when retailers order and receive first shipments, and when they receive or order database updates). Another issue is a required manual process to update order information in the POS for receiving and billing reconciliation, even if products already are in a POS database.

CREDIT STRATEGIES EYED

The CRSC's Core Inventory Best Practices document was discussed at Advance, leading the way to exploring ways

industry credit managers might work more collaboratively with retailers and design financing programs that more closely align with retailer selling seasons and cycles.

Primary issues discussed were:

- Exploring better retailer-supplier collaboration during financial crisis so retailers can stock and sell core-inventory products to create cash flow and pay bills. This would require close cooperation and commitment to ensure stock with demonstrated sales demand is on retailer shelves.

- Ensuring retailers are aware of current and changing supplier-credit policies. A retailer survey on core-inventory issues and CBA coaching and consulting with independent retailers revealed retailers often aren't aware of supplier-credit policy changes. In some cases, this might result from suppliers tightening up on lenient handling of accounts or actual policy changes. In either case, retailers say they've been surprised and found themselves on blanket credit holds, unable to replenish core-inventory products.

A Thomas Nelson Publishing program aims to help address credit-term issues and give retailers some flexibility in meeting debt obligations. Called the Cash Flow

Partnership Program, or informally, The Marketing Plan, the program allows retailers to pay 25% of outstanding balances monthly. If retailers meet those minimum requirements, they can avoid credit holds.

Retailers must sign up for the program and agree to certain terms, but the basic eligibility requirement is to be in good credit standing with Nelson. Depending on retailer balances, the minimum-payment approach often is better than 30-60-90-day terms, a Nelson spokesman said. When balances reach a minimum amount, around \$500, it's requested they be paid off to avoid additional administrative costs.

The Marketing Plan is flexible enough that retailers can still stock up for major selling seasons, such as fourth-quarter Christmas sales, plus still take advantage of special-sale terms.

The Nelson spokesman said the program was first introduced about five years ago, but was reintroduced last year to help retailers gain increased cash flow and have core product available on the shelves. He said it's been very well received among retailers. Also, it's a benefit to Nelson because it improves corporate cash flow and supports increased sales of core products into stores.

CREDIT MANAGERS MEET

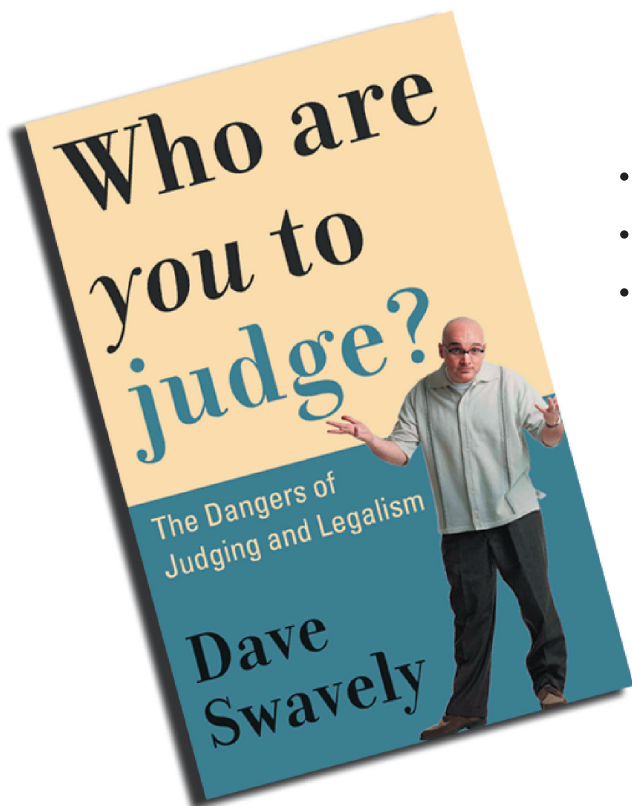
As an upshot of the Advance meeting, CBA was invited last month to discuss core-inventory issues with a group of Christian credit managers representing major industry suppliers.

Credit managers generally are open to new ideas and new ways to do business so all trading partners win, said Leon Overbay, chairman of the Christian credit managers group and Appalachian Distributors chief financial officer. He said credit managers want to be supportive of internal sales reps and help retailers succeed.

He applauded the CRSC approach to open communications and dialogue about key issues. He said the meeting helped him and other credit managers better understand what retailers are dealing with when it comes to core inventory, cash flow, and meeting debt obligations.

Overbay distributed the best practices document to other credit managers in the group. The document is posted at www.christiansupplychain.com. **AR**

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