



# STANFORD

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## GRADUATE SCHOOL OF BUSINESS

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### WEST MARINE: DRIVING GROWTH THROUGH SHIPSHAPE SUPPLY CHAIN MANAGEMENT

*Our goal is to be the best billion dollar boating company every day.*  
—John Edmondson, Chief Executive Officer, West Marine

*The whole company has culturally undergone a huge shift in terms of recognizing the value of supply chain management to the success of the organization and our ability to grow.*  
—Pat Murphy, Senior Vice President of Logistics, West Marine

It was the evening of January 13, 2003 at West Marine's Watsonville, California headquarters. In the morning, CEO John Edmondson would announce to West Marine's shareholders, the press, the boating community, and the employees of the two rival companies that West Marine was acquiring BoatU.S.'s retail stores, Internet/catalog business, and wholesale operations. Although the negotiations had gone on for months, only a small handful of individuals within West Marine had been involved. BoatU.S.'s founder and CEO had insisted on secrecy, and had changed his mind about the sale more than once during the negotiation process. The two companies had been fierce competitors for years. Edmondson, and his counterpart at BoatU.S., knew the announcement would come as a shock to the loyal employees and customers of both organizations.

In the spring of 1996, West Marine had acquired another one of its major competitors: E&B Marine. While the mechanics of the acquisition had gone relatively smoothly, the company quickly discovered that its infrastructure was not strong enough to support an organization that had almost doubled in size overnight. West Marine's supply chain was especially hard hit, with its systems and processes proving inadequate to keep all 72 West Marine and 63 E&B Marine stores amply stocked. The results had been disastrous. Peak season out-of-stock levels climbed to more than 12 percent and, correspondingly, sales dropped by almost 8 percent within the first year following the transaction.

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Lyn Denend prepared this case under the supervision of Professor Hau Lee as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Edmondson was brought in after the E&B Marine acquisition to execute a company turnaround. For more than four and a half years, he had been focused on rebuilding West Marine. The company installed a new senior management team, invested in new systems and processes throughout the organization, and initiated a major cultural change. Edmondson and his team were proud of West Marine's recent achievements—particularly in the supply chain arena. Yet, on the eve of the company's latest acquisition, he wondered whether they had done enough to effectively support another 62 BoatU.S. stores without experiencing the negative repercussions of the E&B Marine acquisition.

Edmondson took a deep breath—savoring the “calm before the storm.” West Marine's course had been set. Now he only needed to launch the journey and hope for smooth sailing.

## **SETTING SAIL: COMPANY BACKGROUND**

### **Anchors Aweigh**

Randy Repass founded West Marine in 1968. Repass worked briefly as a computer engineer in Silicon Valley, but found the high technology industry to be rather cold and impersonal. An avid boater, he sought refuge in his hobby and began selling nylon rope by mail order out of his garage. Driven by a desire to improve the way people shopped for boating supplies (and his personal dissatisfaction with service at his local boating store), Repass next opened a small boating outlet in Palo Alto, California in 1975. The store sold rope, as well as other miscellaneous boating supplies and accessories. Most importantly, it was dedicated to providing knowledgeable, friendly customer service to the boating community—a company of boaters helping fellow boaters.

As the organization's customer base grew, so did its business model. Repass began acquiring and opening boating supply stores along the West Coast. He also gradually expanded the company's product line to include anchor and dock equipment, boat hardware, maintenance and safety products, electronics, boating apparel, water sports equipment, fishing supplies, and more (see **Exhibit 1** for illustrative store and product photos). In 1978, West Marine founded its port supply business and began selling products to boat yards, boat dealers, and other wholesale customers. By 1987, the company had 15 stores. That same year, West Marine began producing its first catalog. In 1991, the company opened its first stores on the East Coast. In 1993, West Marine went public under the Nasdaq symbol WMAR (see **Exhibit 2** for a more complete timeline of company milestones).

### **Making Headway in 2002**

By late 2002, West Marine had become the largest boating supply retail chain in the nation, with operations in the U.S., Canada, and Puerto Rico, approximately 5,000 peak season employees, and annual sales of approximately \$530 million. In total, West Marine offered more than 50,000 products through its stores, Web site, and catalog, including an extensive collection of private-label goods.

### ***Channels***

The company had more than 250 stores, with retail operation accounting for approximately 82 percent of its business. West Marine had three primary types of stores. Most standard stores averaged 8,000 square feet, carried 8,000 to 10,000 stock keeping units (SKUs), and generated roughly \$1.5 million in sales per year. The company also had a growing number of express stores that averaged 2,800 square feet, carried 2,500 SKUs, and generated \$600,000 to \$800,000 in annual sales. In its continued pursuit of growth, West Marine had recently begun experimenting with a third store format—the megastore. These outlets were located in large markets (like Fort Lauderdale), ranged from 24,000 to 30,000 square feet, carried 30,000 SKUs, and were expected to generate \$10 to \$15 million per year. Megastores were intended to be “destination stores,” featuring interactive displays, boater education, and an unparalleled in-house selection.

The remaining 18 percent of West Marine’s business was generated via Internet and catalog orders, as well as sales to commercial customers. West Marine’s catalog was more than 1,000 pages, making it the most extensive in the industry. It offered retail and wholesale customers access to 35,000 of the company’s SKUs, featured full color photographs of the most popular products, and reached more than 1 million boaters a year. The company’s online store included all 50,000 SKUs, but mirrored the catalog to provide customers with a consistent experience across channels. Similarly, West Marine operated a call center that provided real-time customer support for catalog, Web, and in-store interactions. Like West Marine’s associates in the stores, call center representatives were known for having a depth of specialized boating experience and a strong commitment to customer satisfaction.

Because they received a high level of service and a similar buying experience regardless of the channel, West Marine’s customers tended to shop freely between the stores, the Internet, and the catalog. For example, some customers relied on the stores for last minute purchases and to acquire products they wanted to “touch and feel.” However, they would use the Web or catalog to research, compare, and buy products when they had more lead-time, or to take advantage of special offers. “Our most profitable customers shop in all three channels,” explained Tony Gasparich, VP of direct sales. “We broke down the barriers between catalog, Internet, and our stores so that our customers can shop wherever, and whenever it’s most convenient for them.”<sup>1</sup>

### ***Customers***

West Marine had a strong base of both wholesale and retail customers. The port supply (or wholesale) division accounted for approximately 9 percent of the company’s sales. Typical wholesale customers included boat yards, boat dealers, and even some small-scale competitors (e.g., “mom and pop” marine supply stores). In total, West Marine had 33,000 wholesale customers who shopped at its stores (using a wholesale signer’s card) or ordered via catalog and Web. A team of 40 direct sales people and 10 inside sales representatives also served the company’s larger wholesale accounts, advising them on the best products for their needs and nurturing these relationships. “We try to help them do their jobs better,” explained Chris Bolling, West Marine’s VP of port supply.

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<sup>1</sup> All quotations attributed to representatives from West Marine were collected by the author via personal interviews, unless otherwise noted.

On the retail side, West Marine's customers fell into three primary categories: sailors (30 percent), large power boaters (40 percent), and trailer boaters (30 percent). The average West Marine customer tended to be male, college educated, 39 to 55 years old, married with children, and in the top 10 percent of wage earners in the U.S. The company amassed considerable knowledge about its customers through the implementation of loyalty programs that offered discounts to shoppers (among other benefits) in exchange for their membership information. Loyalty program members accounted for more than 70 percent of all West Marine sales. As Tom Carey, the company's senior VP of marketing put it, "This level of participation is off-the-charts for most retailers. It gives us a huge advantage in looking at what our customers are doing, understanding what they think, and modeling their purchasing behaviors."

West Marine also used this customer data, along with boat ownership and geographic information, to customize its marketing efforts. Rather than blanketing the nation with a single one-size-fits-all version of a promotional mailing, the company created different versions of its fliers for warm and cold weather climates, and for each of its primary customer segments (for a total of six targeted mailings for each promotion). The promotional fliers were created approximately twice per month, and had a circulation eight times greater than the largest independent boating publication. As a result, West Marine's vendors were eager to be spotlighted within the mailers, and would frequently pay the company to be included, as though they were buying ad space in a magazine.

### ***Industry Position***

In 2002, the boating supply market accounted for approximately \$6 billion of the total \$25.6 billion boating industry.<sup>2</sup> While general industry performance was relatively strong, RBC Capital Market estimated that the boating supply sector was declining three to five percent per year.<sup>3</sup> At the time, there were more than 5,000 retailers in the boating aftermarket. However, West Marine was one of only three major national boating supply companies.<sup>4</sup> West Marine, BoatU.S., and Boater's World controlled just 10 percent of the total market, with local, independent retailers accounting for the remainder of total sales.<sup>5</sup> Like the rest of the industry, West Marine's stores were concentrated in the three primary U.S. boating markets—the West Coast, the Northeast, and the Southeast. Despite its West Coast roots, 68 percent of the company's business was located in the two major eastern regions where industry growth rates were slightly better and higher population densities enabled the company to achieve greater operational efficiencies<sup>6</sup> (see **Exhibit 3** for highlights from a 2002 analyst report).

The boating aftermarket was considered a specialty retail market. Outside of its immediate peer group, West Marine benchmarked itself against companies like Brookstone, Cost Plus, Autozone, and other high performing, small cap retailers. While West Marine performed competitively against these companies, it had lower sales per square foot and fewer inventory turns than many other specialty retailers.<sup>7</sup> This was due, in part, to the extreme seasonality of West Marine's business. Over 60 percent of the company's total sales typically occurred

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<sup>2</sup> Carole Buyers, "West Marine Inc.: The Clear Leader in a Fragmented Industry," *RBC Capital Markets*, October 15, 2002, p. 3.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*, p. 5.

<sup>5</sup> *Ibid.*

<sup>6</sup> *Ibid.*, p. 8.

<sup>7</sup> *Ibid.*, p. 9.

between the months of April and September, with stores in most areas remaining largely unproductive during the winter season. In addition, West Marine's service philosophy contributed to these challenges. The company's goal of having "what the customer needs, when the customer needs it" meant that the average West Marine store carried a significant portion of products with relatively low sales velocities. In fact, the company estimated that 20 percent of its in-store items accounted for roughly 80 percent of its sales. The rationale for this approach was that boaters had to be able to stop by a West Marine store on their way to their boats and be able to find whatever they needed to spend the day on the water. If the stores did not have the right products on hand, then their customers would potentially lose a day of boating (not to mention their faith in West Marine's ability to act as a one-stop-shop for all of their boating needs). Fortunately, RBC Capital Markets estimated that the relatively low investment cost of a West Marine store and its high contribution margin helped offset its lower inventory turns relative to other specialty retailers.<sup>8</sup>

While West Marine had led a trend toward consolidation in the retail boating supply industry, the industry's manufacturers and dealers remained highly fragmented. Many suppliers were small organizations with insufficient capital and infrastructure to support growing, organized retailers such as West Marine. West Marine's market research indicated that, among other factors, supply chain failures and the corresponding declines in consumer satisfaction were causing boaters to leave the sport, as well as deterring new entrants.

### **Into Rough Waters—The E&B Marine Acquisition**

Prior to its acquisition by West Marine, E&B Marine's 63 retail stores and its small catalog operation provided another source of competition to the company. With approximately \$100 M in annual sales, E&B was one of West Marine's oldest competitors. However, while the two companies had a healthy rivalry, their core customer bases were different. In 1996, West Marine was focused first and foremost on the sailing community. E&B Marine, on the other hand, catered to a power boating clientele that was more price sensitive and value driven than a typical West Marine customer. West Marine was attracted to E&B as an acquisition target because it would enable the company to rapidly increase its penetration of the powerboat segment. In addition, because E&B had recently fallen on hard financial times, the seller was highly motivated to strike a deal. In June 1996, the acquisition occurred.

Following the transaction, West Marine discovered that internal E&B operations were in worse condition than expected. The investment group that had been running E&B had let the company's infrastructure deteriorate and inventories dwindle. The West Marine team had a project plan with thousands of action items for executing the acquisition and addressing some of these challenges. Yet even the basic systems integration between the two organizations took six months to complete. Gasparich recalled, "We got mired down in the minutia and lost track of some of the core strategic issues."

As Bruce Edwards, West Marine's senior VP of store operations put it, "We also went into the E&B acquisition fairly naïve about the impact of a 63-store chain being assumed by a 72-store operation." Pressures behind the scenes within the newly combined organization led to stock-

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<sup>8</sup> Ibid.

outs in the stores. West Marine and E&B customers were frustrated by not being able to find what they needed, when they needed it. To make matters worse, West Marine impulsively began to pull down E&B's signs and started converting their stores to the West Marine brand, assortment, and pricing. Edmondson (who was not CEO at the time) reflected that, "West Marine bought E&B because it was different and unique. Then, they turned all the stores into West Marine stores and locked out the customer base." Edwards added, "We created a lot of damage to both chains," as well as losing ground on comparable sales as a combined organization.

West Marine's management team was also beginning to falter under the stress of such rapid growth. Repass had always boasted that, at West Marine, team members were "boaters first and business men second."<sup>9</sup> Unfortunately, this meant that some members of the senior management team increasingly lacked the experience needed to diagnose and correct the company's core problems. Rich Everett, the company's COO recalled, "We'd try different things, they wouldn't work, so we'd go down a different road. Internally, it was chaos."

By 1998, West Marine's challenges started to show from the outside. Earnings dropped to six cents per share—off 80 cents from the decade's high in 1997. Further, after at least six years of steady growth, net income dropped from \$15.2 million in 1997 to \$1.1 million in 1998.<sup>10</sup> According to the analysts, "It became apparent that West Marine had over-expanded."<sup>11</sup>

## **BATTENING DOWN THE HATCHES: THE WEST MARINE TURNAROUND**

Before the end of that year, West Marine's board of directors (led by Repass, the board's chairman) persuaded retail industry veteran Edmondson to join the company as its new CEO. His immediate charge was to generate cash quickly. However, the board also expected him to put the company back on an even footing. To accomplish this, Edmondson focused on four specific areas: (1) leadership, (2) strategy, (3) people and culture, and (4) systems and processes.

### **Leadership—The Captain Selects His Crew**

Edmondson recognized immediately that he needed more experience in his management team. West Marine's boaters in businessmen's roles had done a worthy job of bringing the company to the \$500 million mark. Yet, to resolve the company's challenges and become a \$1 billion business, Edmondson wanted people who had "been there, done that" in larger, more complex retail organizations. Everett recalled, "John changed out almost all the key players in areas where the business was failing" (see **Exhibit 4** for a high level view of West Marine's executive organization).

Ken Corwin was brought in to lead the merchandising team. Pat Murphy came in to manage logistics and distribution. David Schenk took on information systems. Larry Smith filled a new position focused on supply chain planning and replenishment. All of these executives had deep experience in their respective areas, working in multibillion dollar companies. For example, Pat Murphy joined West Marine from Borders Books where he managed five distributions centers,

<sup>9</sup> See West Marine's Web site at [www.westmarine.com](http://www.westmarine.com) under the Company History section.

<sup>10</sup> Mike de Give, "West Marine Products Charts a Steady Course," *Santa Cruz Sentinel*, July 18, 2001.

<sup>11</sup> Buyers, op. cit., p. 6.

each twice as big as West Marine's largest DC. Among other positions, Larry Smith formerly headed the supply chain planning team for Kmart's \$8 billion apparel business (see **Exhibit 5** for selected West Marine team biographies).

### **Strategy—New Navigation Rules**

Upon joining West Marine, each executive was given the general mandate to turn around his respective function. However, to keep individual actions aligned across the organization, Edmondson enlisted the team's assistance in defining a new company strategy. Through an extensive, collaborative planning process, the leadership team developed a five-year plan (which would be updated on an annual basis). The strategic plan started with West Marine's vision of being *the best boating products company every day*. It then outlined a series of specific financial goals (company-wide performance indicators), that included ROE, cash flow, comp sales, EPS, product service levels, market share, customer satisfaction, and associate satisfaction. Next, the plan outlined six critical success factors that would enable West Marine to achieve its desired financial results and realize its vision (see **Exhibit 6** for excerpts from West Marine's strategic plan). Finally, it went on to detail the specific strengths and weaknesses of the organization, and the select initiatives upon which the company would focus in the coming year.

As a result of the strategic planning process, every leader at West Marine understood the company's direction and the role he was expected to play in helping the organization realize its goals. Edmondson left it up to the individual leaders to define the specific tactics that would rapidly deliver the required results in their areas. Then, formal reports were put into place (with metrics that cascaded from the enterprise-level performance indicators) to regularly measure the company's progress and hold every manager accountable for his actions.

### **People and Culture—All Aboard**

Edmondson also expected his new management team to help drive a cultural change within West Marine. The company was founded on the idea of providing "better-than-expected customer service." Yet, as the company began to falter, employees started to interpret this as permission to take care of the customer at any cost. Edmondson recalled, "I remember one example where we spent \$1,800 to rush a \$200 part to a wholesale customer in Hawaii. The good thing was that we continued to take care of our customers despite our internal challenges. The bad part was that there were no rules. Everybody was running amok." Another issue that created problems within the organization was a growing sense of protectionism and secrecy within and across departments. The more the company struggled, the less willing its teams were to share information about their issues, challenges, and needs across organizational boundaries.

The leadership team addressed these problems head-on. Outside experts in cultural change were brought in to more appropriately direct the passion and energy of the organization. Significant effort was also invested in redefining roles and refocusing employees on their jobs so that, as Edmondson put it, "people would play their positions and work together to more efficiently solve problems." They also made it clear, to new and old employees alike, that "silo" mentalities within traditional vertical functions would no longer be tolerated. Lines of communication were opened through the initiation of cross-departmental meetings and project teams. The

organization also achieved increased visibility by holding functional areas mutually accountable for meeting shared metrics.

### **Systems and Processes—Regaining an Even Keel**

Repairing West Marine’s foundation to support its recent (and continued) growth was one of the most important turnaround initiatives facing the new leadership team. Corwin recalled that when he joined West Marine “it was a disorganized, crisis-managed environment. The company had grown so fast, its britches were about to pop. We didn’t have the systems in place, we didn’t have the structure, and we didn’t have the discipline.” To address these problems, Edmondson said, “We began attacking every process. We literally reviewed tens of thousands of processes and reinvented all of our systems to figure out how we could take ongoing SG&A out of the business at the same time that we started operating more effectively.”

### **CHARTING A NEW COURSE: SUPPLY CHAIN COLLABORATION**

Process and system changes would occur throughout the organization, but particular emphasis was placed on transforming the company’s supply chain management practices.<sup>12</sup> “Our supply chain was complex, difficult, and broken,” Edmondson remembered, “So I saw major cost opportunities. But, there were also significant opportunities for improvements in sales and customer service.” Even though instock rates reached an all-time low following the E&B Marine acquisition, the company remained passionate about having on hand whatever products its customers needed. Corwin, Smith, Murphy, and Schenk would have to work together to completely recreate the company’s systems and processes in this area. All four executives were up for the challenge, and they were committed to transforming West Marine’s supply chain from a liability into a competitive advantage.

### **Fighting the Current—West Marine’s Supply Chain Challenges**

Even before the E&B Marine acquisition, West Marine’s supply chain was more complex than the supply chains of most specialty retailers. The company had an enormous number of SKUs to manage. It also had extraordinarily complicated inventory requirements that were necessitated by the seasonal nature of its business—every spring West Marine expanded the amount of inventory in its stores and DCs by 20 to 30 percent to prepare for peak season. Given the wide variety of products offered by West Marine, the company also had almost 1,000 vendors to manage in 2003. Each vendor differed in the number and types of products it supplied, its level of sophistication, the capabilities of its supporting infrastructure, and its responsiveness to West Marine’s needs. Some were mom-and-pop suppliers that struggled to keep up with West Marine’s orders. Others were marine divisions within large organizations (like 3M Marine) that recognized West Marine’s importance as a customer, but faced product delays and other barriers because of cross-divisional management challenges (these divisions were often smaller offshoots of a company’s main business and were, accordingly, treated like “second-class” departments within their own organizations). To complicate the supply chain further, West

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<sup>12</sup> The term *supply chain* refers to the trading partners and processes involved in acquiring materials, producing goods, and distributing them into the marketplace to satisfy customer demand. The goal of supply chain management is to get all parties involved in the supply chain – including retailers, wholesalers, distributors, transporters, and manufacturers – working together to get the right products, distributed in the right quantities, to the right locations, at the right time.

Marine's promotions came into play, with advertising decisions having a tremendous impact on the volume and timing of products needed in the stores.

### *At the Home Office*

Prior to the turnaround, all supply chain planning and replenishment activities were disconnected and poorly coordinated within the merchandising team. Forecasts were created, but they were widely considered to be inaccurate, inconsistently shared with suppliers, and rarely used for significant planning purposes. Replenishment processes were somewhat rudimentary and allowed for a disproportionate number of exceptions from the stores (which many considered to be "cowboy" behavior rather than sound supply chain input). In addition, representatives from merchandising infrequently considered the supply chain implications of their actions when they agreed to special deal-buys with vendors. Instead, the effects of these decisions were typically felt after the fact, when rush purchase orders were requested or products unexpectedly arrived at the DCs and had to be received, managed, and reconciled with in-process replenishment activities.

Two-way communication and collaboration with suppliers was also substandard. In the absence of other information, vendors tended to operate on a purchase-order-to-purchase-order basis. For example, suppliers would be given advance notice when West Marine intended to add one of their products to its assortments, yet they frequently did not know what quantity would be required until a purchase order was delivered. As a result, West Marine was plagued by late shipments, which negatively impacted instock rates in the stores. Even more importantly, late shipments frequently interfered with the availability of products featured in key promotions. Both problems contributed to lost sales and decreased customer satisfaction.

West Marine struggled further with a rash of partial shipments from vendors. Every purchase order that was filled in two or three deliveries required two or three times the manpower to process, receive, and redistribute to the stores. Partial shipments were a key contributor to West Marine's supply chain costs, which had spiraled out of control. Few individuals within the organization understood the inefficiencies that were driving these cost increases, and the West Marine team was stuck in the mode of fighting supply chain fires, not solving their underlying problems.

The E&B Marine acquisition further compounded central supply chain challenges by adding more stores, new SKUs, and different assortments that had to be managed. The combined vendor population reached 1,400 at its peak, and communication with legacy E&B Marine suppliers was no more productive than it was at West Marine. From a systems perspective, West Marine had relatively advanced supply chain management software in place. However, as Everett put it, "We had the Ferrari of supply chain management software, but we only had people who knew how to drive Ford trucks. They took everything down to the lowest common denominator and tried to make it work." Data integrity between the DCs and the stores was also a major problem because they utilized two separate back-end databases that were not effectively interfaced. Even after the E&B Marine systems and data had been integrated with West Marine's, it was nearly impossible to get an accurate, end-to-end understanding of supply chain performance from the enabling information systems.

### ***In the Distribution Centers***

In the mid 1990s, West Marine was outgrowing its 70,000 square foot DC in Charlotte, North Carolina. Accordingly, the company decided to invest in a new 500,000 square foot facility in Rock Hill, South Carolina (which would take several years to build). While there were multiple delays in construction, the facility was nearing completion just as West Marine entered into the E&B Marine acquisition. The company shifted operations from Charlotte to Rock Hill, anticipating a relatively smooth transition since many of the employees from Charlotte agreed to commute to Rock Hill (which was just 15 miles away from the original facility). However, the transition from a small, mostly manual operation to a warehouse that was more than seven times as large and highly automated (e.g., with an advanced network of conveyors) proved to have many unanticipated challenges. Employees needed different skill sets, more experience, and more extensive training.

Within the same timeframe, sales in the stores were surging. Orders for products were placed at full speed and vendors made high volumes of shipments in return. In Rock Hill, deliveries quickly began to back up on the receiving docks. The DC team could not receive and process them fast enough in the new facility to keep up with the inbound freight. Cartons and containers piled up. Merchandise was misplaced. Outbound shipments to stores were delayed, which further compounded instock problems. As Edwards recalled, “Our supply chain was crippled. Out-of-stocks in the stores reached upward of 25 percent for most of peak season.”

Within the first year following the E&B Marine acquisition, West Marine had always intended to close the rather poorly run E&B warehouse in Edison, New Jersey to help reduce overall logistics costs. However, the timing for the closure could not have been worse. Rock Hill, with its vast capacity, was expected to absorb the inbound and outbound traffic from Edison (which meant that its volume nearly doubled). Despite the bottlenecks, it made little sense from a time or cost perspective to involve West Marine’s only other DC in resolving the problems since it was located on the West Coast. Operations in Rock Hill were forced to stumble forward.

In response to its mounting problems, the Rock Hill team started working harder and longer each day. “At one point, there was a 10-hour rule,” explained Murphy who inherited this problem upon joining West Marine. “Our employees could go home for 10 hours to sleep and eat, then we needed them back on the job.” The shipping dock operated 24 hours a day in an effort to get needed products to the stores. Warehouse costs mushroomed, and employee turnover skyrocketed. Murphy estimated, “In 1999, we probably hired 1,200 people over the course of the year to keep 280 peak season jobs filled.” Something had to change.

### **A Port in the Storm—Supply Chain Improvements**

Given the extent of its supply chain challenges, West Marine recognized that it needed long-term, holistic solutions that would require a significant investment of time and resources. The leadership team put a halt to all store expansion to relieve some of the immediate pressure on the supply chain, and to enable the management team to focus all of its energy on identifying and fixing its underlying supply chain problems. Critical importance was placed on improving end-to-end supply chain visibility and effectiveness, driving down related costs, and improving the level of supply chain collaboration within and outside West Marine. Through increased collaboration, the company hoped to transition out of its reactionary mode of fighting perpetual

supply chain related fires, and begin to more proactively anticipate and prevent issues from arising.

Smith, who was active in a number of industry associations and supply chain organizations, had recently begun hearing about a process called *collaborative planning, forecasting, and replenishment*. Recognizing that many of West Marine's problems were related to inadequate, ineffective, or isolated planning, forecasting, and replenishment activities, he started to investigate the approach on the company's behalf.

### ***Defining CPFR®***

Thought leaders in supply chain management had long recognized the fact that companies frequently struggled to keep their internal constituencies aligned in effectively managing the flow of materials or goods into, through, and out of the enterprise. Yet, there was also a growing consensus that coordinating the supply chain within the boundaries of a single organization was not enough. Companies had to partner with extended networks of manufacturers, suppliers, distributors, and/or retailers to optimize performance all the way from the time a customer placed an order through the time that order was fulfilled.

Wal-Mart was one of the first pioneers to embrace the counterintuitive notion of sharing proprietary supply chain related data outside the boundaries of its internal organization when it launched a *co-managed inventory* pilot with Warner-Lambert in 1995. When the company realized some success from its initial efforts, Wal-Mart asked the Voluntary Interindustry Commerce Standards (VICS) association to study and develop a forward-looking process to promote more productive supply chain management throughout the retail industry.<sup>13</sup> The new process, published in 1998, was called *collaborative planning, forecasting, and replenishment* (CPFR®).

CPFR® formally combined and capitalized on the intelligence of multiple trading partners in the planning and fulfillment of customer demand.<sup>14</sup> At the heart of CPFR® was the development of a single, shared forecast that supported the joint plans of trading partners in the supply chain and drove their mutual replenishment activities. It also provided a framework within which exceptions could be systematically identified and addressed. Clear performance measures were defined to document operational performance expectations. Risk was monetized so that partners faced clear financial consequences when agreements were not met. Incentives were used to motivate collaborative, cooperative behavior and to share the benefits as waste was eliminated from the supply chain and desired results were achieved (see **Exhibit 7** for the complete VICS process model).

Much of the value of CPFR® resulted from the exchange of more timely, complete, and realistic forecast data, which led to higher forecasting accuracy rather than more sophisticated forecasting algorithms.<sup>15</sup> CPFR® also linked best practices for sales and marketing (like category

<sup>13</sup> RetailSystemsAlert Group, "A History of CPFR,"

<http://www.retailsystems.com/IndustryEvents/Index.cfm?PageName=CPFROHistory> (May 5, 2004).

<sup>14</sup> Voluntary Interindustry Commerce Standards Association, "CPFR: An Overview," May 18, 2004, <http://www.cpfir.org> (July 12, 2004).

<sup>15</sup> Voluntary Interindustry Commerce Standards Association, "CPFR Voluntary Guidelines: Nine Step Process Model," June 2002, <http://www.cpfir.org> (May 5, 2004).

management) to supply chain operations to improve instock availability, reduce inventory, and decrease logistics and transportation costs<sup>16</sup>. It also helped eliminate constraints that had traditionally limited supply chain efficiency. For example:

Most sellers hold finished goods inventory in sufficient quantities to meet customer demand. Manufacturing capacity is not used because buyers' normally short order-cycle times are inconsistent with longer manufacturing cycle times. By extending the buyer order cycle and thus making it consistent with the manufacturing cycle, production could move to a "make-to-demand" process for some products. This removes the need to hold a significant amount of finished good inventory in the value chain and improves customer service, which produces dramatic benefits.<sup>17</sup>

Despite the promise of potentially dramatic results, the widespread adoption of CPFR® had been gradual, with companies in the consumer packaged good industry acting as the primary pathfinders. In the late 1990s, some organizations were still hesitant to initiate CPFR® programs because they suspected that the potential benefits had been exaggerated. Others had recently reengineered their supply chains and felt uncertain whether enough additional waste could be eliminated to justify the investment in CPFR®. Still others chose to allocate their limited funds and resources to other e-business initiatives.<sup>18</sup>

### ***Preparing for CPFR® at West Marine***

From his initial interview with the company, Smith was encouraged by the willingness among the West Marine management team to believe that replenishment forecasting could be accurate enough to help drive the company's core business decisions and processes. If West Marine could achieve a more holistic view of all inventory activity within the company, and collaboratively share the benefits of this information with its supply chain partners, it could realize significant benefits. Convinced that CPFR® would help the company repair its supply chain and achieve these desired results, the West Marine management team committed itself to implementing the approach.

While CPFR® defined at a high level how trading partners should work together to plan, forecast, and manage replenishment, it did not dictate who fundamentally owned the process. Instead, different options enabled companies to make this determination based on the competencies, resources, and systems of the involved parties.<sup>19</sup> Importantly, the retailer and the manufacturer would both have input into all stages of the process. However, a single entity would ultimately take ownership for their execution. Option A was considered *conventional order management*, with the retailer driving the forecast, order planning, and order generation. Option B, called *supplier-managed inventory*, put the retailer in charge of the forecast, but the manufacturer in charge of order planning and buying. In Option C, *co-managed inventory*, the retailer developed the forecasts and planned the orders, but the manufacturer generated the

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<sup>16</sup> Voluntary Interindustry Commerce Standards Association, "CPFR: An Overview," op. cit.

<sup>17</sup> Voluntary Interindustry Commerce Standards Association, "CPFR Voluntary Guidelines: Nine Step Process Model," op. cit.

<sup>18</sup> Tom Harwick, "Collaborative Planning, Forecasting, and Replenishment Will Take Off in Next Two Years," *Forrester Research*, June 7, 2001, <http://www.forrester.com/Research/LegacyIT/0.7208.24863.00.html> (May 5, 2004).

<sup>19</sup> Voluntary Interindustry Commerce Standards Association, "CPFR Voluntary Guidelines: Nine Step Process Model," op. cit.

orders. Finally, in Option D, the manufacturer was responsible for all three activities as in *vendor-managed inventory* programs (see **Exhibit 7** for an overview of these four role options).

“The key reason for West Marine to focus on the retailer-driven approach,” explained Smith, “is that the buyer usually drives the key events that crack the ‘bullwhip’ in the supply chain (for example, promotions and assortment changes). The buyer-driven forecast also depends on only one technological platform, so it is scalable across many items and suppliers with similarly accurate results.” Accordingly, the company decided that it would support Option A, where the retailer (or buyer) acts as the supply chain hub.

However, before West Marine could begin creating more accurate forecasts that could be shared with suppliers as part of its new CPFR® initiative, the company had some important information systems changes to make. At the heart of West Marine’s supply chain systems was JDA’s Merchandise Management System (MMS)—a robust platform that the company could build upon. The MMS was interfaced with the company’s point-of-sale system in the stores (also provided by JDA) to keep track of basic inventory levels and product sales at the store level. West Marine also used JDA’s Warehouse Management System (WMS) as the software engine for its distribution center (DC) operations.

West Marine also had advanced replenishment and forecasting tools: JDA’s Advanced Store Replenishment (ASR) and Advanced Warehouse Replenishment (AWR). The problem was that both systems required intensive and duplicative maintenance and management to work well. The two systems were totally disconnected—none of the work in one system could be directly leveraged by the other. Store replenishment planning focused on historical customer sales. Warehouse replenishment planning focused on historical distribution center shipments, which had no reference to current store forecasts, overstocks, understocks, assortment changes, store-DC servicing changes, or new store additions.

If replenishment management and maintenance could be integrated and then limited to the key drivers of customer sales, replenishment associates could invest more time and effort in working with suppliers to improve on-time and accurate delivery of goods, and spend less time and effort executing work-arounds necessitated by suboptimal West Marine systems. The key drivers to customer sales forecasts were base annual forecasts, seasonal selling curves or “profiles,” ranking or service levels for items by importance to the business, promotions, and assortment changes. In West Marine’s business model, sales from nonstocking locations were also a significant driver. Items that could be obtained for a customer from a stocking DC, but not carried in a store, accounted for approximately 10 percent of all store sales. In fact, in certain product categories, nonstocking sales actually accounted for the majority of item sales.

While many companies, particularly in the retail sector, wanted and needed *multi-echelon* solutions that linked and aggregated store and warehouse forecasting and replenishment, few had effectively achieved them. At the time, no leading software vendors offered such a solution out-of-the-box. JDA was working on a solution, and Smith discussed codevelopment options with the software provider. However, in the end, West Marine elected to develop a custom integration solution to link its store and DC level replenishment platforms. The challenge was left to Smith, Schenk, and their respective teams to develop the in-house solution, although their

efforts were aided by the efforts of a San Francisco-based system engineer and integrator, Matt Henderson of Amigo, Inc. Ultimately, West Marine implemented a successful, robust linkage between the point-of-sale and DC systems that maximized automation and mass-maintenance procedures, and gave West Marine one of the first true multi-echelon replenishment solutions in the retail sector.

In accomplishing its multi-echelon solution, West Marine created new user interfaces that enhanced the user's view of how products performed across the network. The company addressed the challenge of accomplishing accurate seasonal profiling by implementing JDA's Intellect seasonal profiling package. West Marine also installed JDA's Advanced Planning package, populating it with all its replenishment forecasting information. This provided flexible perspectives on how key business elements performed, while constituting what Smith called an "automatic" open-to-buy policy, because replenishment forecasts determine future inventory requirements (see **Exhibit 8** for a visual overview of all West Marine supply chain related information systems).

Electronic data interchange (EDI) was another important aspect of West Marine's supply chain infrastructure improvements. The purpose of EDI was to standardize the electronic transfer of structured information between trading partners to increase productivity, reduce human error, and drive down costs. Documents like purchase orders, invoices, and shipment notifications were exchanged in a systematic manner that improved advanced visibility and promoted better communication between companies. West Marine implemented EDI using an SPS Commerce solution. The company then worked with the National Marine Manufacturers Association (NMMA) to establish this as the EDI standard in the marine industry with the hope of more rapidly stimulating its adoption. Next, West Marine went out to its suppliers and directly requested that they begin using EDI. As more and more suppliers came online, West Marine primarily benefited from the increased visibility to its inbound inventory liability and supplier shipping performance through the EDI advance shipment notices, which provided the company discrete shipment information from the time shipments left suppliers' shipping docks.

Concurrent with these systems changes, West Marine launched a significant data clean-up effort. Evaluating one SKU at a time, West Marine employees eliminated discrepancies in shipping multiples, case pack quantities, and other critical data fields that would reduce internal errors and minimize supply chain inefficiencies. For example, a legacy store level replenishment setting might have triggered the need for "four" paint brushes to be sent to that store (with the store expecting to receive four individual units). However, if the DC level setting for the ship multiple did not match, the DC might instead send out four cases of paint brushes—significantly more inventory than the store could hold or use. The planning and replenishment team and the logistics team also worked together to create new business rules that dictated who could modify specific data fields (and under what conditions) to help avoid future discrepancies and unanticipated changes.

With its new tools, West Marine was able to begin creating accurate 52-week forecasts of supplier orders for all of its products with a minimum of manual intervention. Historical sales data was used to generate the baseline forecast, which was then systematically made richer by taking into account seasonal (geographic based) profiles, product rank (based on anticipated

sales volume and gross margin), and scheduled promotions (fliers, special displays in the stores, and other promotional activities). These forecasts were updated every 24-hours, based on the previous day's sales so that the company always had an up-to-date forecast of what needed to be ordered. According to Schenk, "A lot of retail CIOs are taught to do a store level inventory replenishment forecast once a week and feel good about it. We do it daily. Every day. Timeliness is a significant component of accuracy. That's why we have such confidence in our forecasts."

To support this new forecasting and replenishment approach, West Marine also had to get its own employees working together more effectively. In the home office, Corwin and Smith agreed to implement a category management approach that would drive employees in the merchandising and planning and replenishment departments to perform as an integrated unit. They divided all of West Marine's products into 24 distinct product clusters (e.g., electronics, maintenance, deck hardware) and assigned a category manager and an assistant category manager from the merchandising group to each one. In addition, a merchandise planner and a replenishment analyst were assigned from the planning and replenishment department. These four individuals were colocated in a team "pod" (an open, team-oriented workspace) and were charged with working together. Importantly, no staff additions were authorized to support the new structure—all positions were filled by reorganizing existing headcount as redundant activities were eliminated and low-value activities were automated via the new supply chain systems.

The category manager and his/her assistant were responsible for choosing the items that the company would stock, assigning a channel (or multiple channels) to each product, negotiating vendor agreements, determining price, margin, and volume goals, developing promotion strategies, and managing the ongoing vendor relationships. The merchandise planner acted as the "supply chain captain," cutting purchase orders, monitoring shipments and fill rates, resolving problems, and coordinating all aspects of the supply chain from the vendor to the DC. The replenishment analyst worked closely with the merchandise planner, but focused on those aspects of the supply chain related to getting product from the DC to the stores. Specifically, s/he entered and monitored the forecasts, interfaced with the stores to ensure that they got what products they needed (when they needed them), and managed special requests from the stores.

The new category teams also worked closely with assortment planning (part of the planning and replenishment department), visual merchandising, and marketing. The assortment planning group helped ensure that each unique store had the right mix of products to maximize sales and profitability in its market. The visual merchandising team designed the planograms (which assigned a physical location to every SKU in the store) for each store's unique assortment. The marketing team provided customer and market data to these groups, and also coordinated the physical promotions that were agreed to by the category teams. From a supply chain perspective, every promotion had to be included in the forecast no less than 90 days in advance so that the appropriate products (in the appropriate volumes) could be ordered, shipped, received, and incorporated into the physical store design according to the planogram (see **Exhibit 9** for a simplified view of how category management, merchandise planning, replenishment analysis, assortment planning, visual merchandising, and marketing all worked together).

### ***The West Marine CPFR® Pilot***

Once West Marine had implemented the structural, process, and information system changes necessary to make significant internal supply chain improvements, the company was ready to begin collaborating more directly with its suppliers. West Marine's goal was to more proactively consult with its vendors on shared forecasts and other supply chain issues to further improve fulfillment and sales. To get started, West Marine hand-picked a group of 12 suppliers to be part of its initial pilot. These suppliers tended to be large vendors that were struggling with supply chain issues of some sort (e.g., late or incomplete shipments). The category management teams met with the vendors one-on-one to introduce the CPFR® approach and make plans for its adoption. These sessions were characterized by honest, fairly blunt discussion about West Marine's desire to have the best supply chain in its class. Specific goals and expected performance levels were clearly spelled out. Vendors were asked directly to commit to these goals, although the company chose not to require formal, written agreements.

No specific investments in technology were required from the vendors, but West Marine did expect them to designate resources within their organizations to act as the counterparts to West Marine's supply chain captains (the merchandise planners). For some suppliers, this investment was considered minimal to keep a sizable customer like West Marine satisfied. For others, it represented a potential financial hardship. Most suppliers were willing to participate. For those who resisted or declined, West Marine made no secret of the fact that it might re-evaluate its relationship with the company following the more widespread implementation of its CPFR® program.

With this groundwork laid, West Marine began sharing its forecasts with vendors in the pilot group on a weekly basis. Vendors were also provided with weekly updates on their performance relative to West Marine's CPFR® goals (see **Exhibit 10** for examples of these communications). Cross-functional status meetings were held monthly to review progress and discuss potential improvements. The entire category team participated in these meetings, along with their respective counterparts from the vendor organization, to maintain a holistic, integrated perspective on each vendor relationship. Between these scheduled meetings, supply chain exceptions and performance issues were directly addressed on an as-needed basis.

West Marine's CPFR® pilot quickly built momentum through the introduction of quarterly Supply Chain Summits—three-day working sessions in which the company could get as many as 28 vendors up to speed and into the CPFR® program at a time. By the end of 2002, the company was actively collaborating with its top 150 vendors, and it also had more than 350 EDI partners (representing 90 percent of the company's supplier spend). Through the more open exchange of information, standardized processes, and improved systems, West Marine began to realize select significant results (see **Exhibit 11** for illustrative vendor success stories). In terms of the key performance metrics for the CPFR® program, instock rates at the stores came close to the goal of 96 percent in every store, even during peak season. Forecast accuracy climbed to approximately 85 percent. On-time shipments, on the other hand, were improving but only reached 30 percent against a stated goal of 90 percent in 2002. However, West Marine expected them to climb to at least 50 percent by the end of 2003.

Buoyed by its progress, West Marine implemented a “no hassle” guarantee to its suppliers. To show the seriousness of its commitment to its forecasts, the company promised to purchase 100 percent of its forecasts every time. While this placed the burden of any mistakes squarely on West Marine’s shoulders, it went a long way toward convincing vendors to trust in the company’s forecasts.

The implementation, however, was not without its challenges. West Marine continually had to “sell” the value of CPFR® to its suppliers, and some remained unconvinced. Certain vendors did not believe that benefits warranted the investment of time, money, and resources. Others felt West Marine, as the country’s largest boating supply company, was “throwing its weight around,” and that its expectations of its vendors were unrealistic. At times, suppliers became preoccupied with the metrics and challenged the accuracy of West Marine’s performance reports. Distractions like these caused West Marine and its suppliers to spend more time arguing about measurements than focusing on performance improvements or other, more constructive behaviors. However, many vendors were enthusiastic about the changes, which increased their ability to more regularly communicate and collaborate with West Marine. In fact, as word began to spread among its suppliers, more companies specifically asked to be included.

In the home office, initial employee reactions to West Marine’s CPFR® program were mixed. While some individuals resented the more restrictive processes and the more rule-based environment, others believed in the changes and were energized by the results the company was starting to realize. Regardless of their personal feelings, all of West Marine’s employees agreed that the supply chain worked significantly better than it had following the E&B Marine acquisition. More people, at all levels of the organization, understood the end-to-end process and the impact of their actions on supply chain effectiveness. In addition, there was a much higher level of cooperation and collaboration within West Marine—even among those who had not yet bought-in to the value of CPFR®.

#### ***Other Supply Chain Improvements in West Marine’s DCs***

In the DCs, West Marine started to use the improved forecasts to plan shipping and receiving activities and use its dock space more productively. For example, if the forecast called for 150 truckloads of antifreeze to support the company’s winterizing campaign, the DC team would know to coordinate with the planning and replenishment department to make sure all 150 truckloads of product did not arrive at the DC at one time. Working together, these teams used the forecasts to smooth demand spikes and schedule/sequence inbound and outbound shipments to maximize the efficiency of its internal supply chain operations. Coordination based upon forecasting also allowed Murphy and his distribution managers to proactively plan and manage the labor requirements for each season to create an optimal balance among seasonal hiring, overtime, and year-round staffing alternatives.

To institutionalize more collaborative supply chain interactions, the planning and replenishment department and the DCs established weekly meetings. As Murphy put it, “The marriage of replenishment and physical logistics and distribution cannot ever be separated. They have to work in total concert. Otherwise, you’re going to have serious trouble.” In these sessions, the two groups agreed on a tactical, 30-day view of the forecast and used it to optimize near-term supply chain planning and execution. The merchandise planners brought insights from the

vendors to these discussions, and the DC team offered a reality check from the warehouse floor. The focus was on troubleshooting, problem resolution, and the elimination of unanticipated changes and supply chain delays.

In addition to working more closely with the planning and replenishment group, the distribution team implemented a series of major process improvements. West Marine leveraged its new IS capabilities to convert all of its DCs to radio frequency (RF) item and parcel identification. West Marine also used JDA's WMS to support differentiation of shipping methods and multiples by location. Further, the company began more fully using its Cubiscan system. Cubiscan was a computer used on the receiving dock to measure the cubic displacement of every item, case, or other unit received (e.g., its physical dimensions, weight, and other data). With this information, the DC teams could more efficiently manage storage space within the warehouse by optimizing the capacity of every aisle. It also enabled them to more effectively plan pick lists and fill cartons. By knowing exactly how much space each item would require in a carton, West Marine saved money by filling its cartons to 85 percent capacity and, in turn, making fewer shipments to move the same volume of product. Since outbound shipping represented the vast majority of most DC labor and operating cost, the focus on standard (and inner) pack utilization reaped significant benefits, including a 3x improvement in the use of standard carton distribution to West Marine's stores.

Murphy also used the Cubiscan data as input toward the creation of engineered operating standards for the warehouses. Working with an outside consultant, the DC teams completed three-dimensional studies of the warehouse facilities to determine the time and distance requirements of every job in the DCs. Using this data, management could define the optimal sequence and anticipated time required to shelve any combination of products, complete any pick lists, prepare cartons for shipping, and execute other common operating procedures. This meant that for every standard process in the warehouses, there was a benchmark against which the efficiency and effectiveness of West Marine's employees was measured.

To drive additional logistics efficiencies through transportation, West Marine took control of its inbound freight and directly managed close to 85 percent of all inbound shipments by 2003. Rather than relying on vendors to independently arrange for the delivery of products to the DCs, West Marine instructed them to call the company to arrange for a pick-up. West Marine committed to executing the pick-ups within 48 hours of being notified, which was good for the vendor. There were also many benefits to West Marine, including significantly lower freight rates. The company was also able to coordinate pick-ups to maximize truck capacity and reduce traffic at the DCs (e.g., one truck arrived with 25 pallets from a variety of different vendors rather than 25 trucks showing up at the DC carrying one pallet each). Finally, directly managing its inbound freight gave West Marine additional, advanced visibility into upstream supply chain activities "rather than just hoping that everything shows up where it's supposed to be," according to Murphy. "The sooner you take ownership of the physical product and the physical movement of that product, the more likely you're going to achieve your goals."

At the same time as executing these performance improvements, West Marine invested significant time and energy in training its DC employees. Because the company had been operating in a crisis management mode for several years, the training of hourly and management

associates had fallen by the wayside. However, with the latest round of changes in the DCs, West Marine wanted to be sure that all staff members understood *how* things worked, and *why* they worked that way, so that they could make independent decisions that positively (rather than negatively) impacted the efficiency and effectiveness of the supply chain. Employees took on increased responsibility for achieving desired results and, through the company's training program, they acquired the knowledge and tools they needed to be successful.

## TESTING WEST MARINE'S SEAWORTHINESS: THE BOATU.S. ACQUISITION

### On a Slightly Different Course

BoatU.S. (Boat Owners Association of the United States) began as a boater's advocacy group in 1966. Over the years, BoatU.S. grew to more than 500,000 members. Its primary member services included marine insurance, boat financing, marina discounts, towing, government representation and lobbying, consumer advocacy, boating news (through *BoatU.S. Magazine*) and programs to improve environmental responsibility and safety within the boating industry. The group also expanded its services to include a boating equipment division that had 62 stores, Internet/catalog operations, and a small wholesale business by 2003.

Initially, BoatU.S. stores were located primarily on the east coast, while West Marine was concentrated in the West. As founder Richard Schwartz put it in an article for his magazine, "Our two organizations watched each other grow—first with interest from distant coasts and then in the same market areas as our stores moved closer together."<sup>20</sup> As both chains sought to expand, and as consolidation started to occur within the industry (e.g., the E&B Marine acquisition), a rivalry emerged between the two companies.

While BoatU.S. tended to serve more trailer boat customers than West Marine, there was significant overlap within their customer bases. Regardless of this common ground, BoatU.S. and its customers considered themselves unique. According to Schwartz, "BoatU.S. was quite different. We were a membership association formed not only to save boaters money on equipment and supplies, but to give them a voice on legislation, government regulations, safety, and consumer issues."<sup>21</sup> This difference affected both companies' perceptions of one another and fueled competition between the two chains.

Despite its best efforts, BoatU.S. could not keep up with West Marine's expansion. The organization quietly entered acquisition talks with West Marine. Schwartz was originally interested in selling the entire BoatU.S. organization to West Marine, but West Marine determined that it was only potentially interested in its equipment business (the retail stores, catalog/Internet, and wholesale operations, excluding the BoatU.S. headquarters staff). Eric Nelson, West Marine's CFO explained, "We were prudent enough to recognize we were retailers. Many companies get so cocky that they think they can do anything." Eventually, the BoatU.S. team warmed to this approach, stating that it would allow the association to refocus its efforts on its core mission—providing members with boating related services. However, due to the intensity of the rivalry between the companies and his own mixed emotions about the sale,

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<sup>20</sup> Richard Schwartz, "Behind the Buoy," *BoatU.S. Magazine*, March 2003.

<sup>21</sup> Ibid.

Schwartz insisted that all negotiations had to be kept secret until the day the transaction was executed.

### **Planning the Overhaul—High Pain, Short Duration**

BoatU.S.'s requirements for secrecy made planning for the acquisition extremely challenging for West Marine. According to Edmondson, "Up until one or two weeks before the acquisition, there probably weren't 15 people in our organization who knew it was coming." Edmondson went only to select members of his executive team and asked them how much time and money they would need to execute the acquisition. "He said if it's too expensive or too complex, we're not going to do it," remembered Schenk. From a financial perspective, West Marine's results were just beginning to improve and the company couldn't afford a high-cost acquisition. From a customer perspective, it had successfully repaired much of the damage caused by the E&B Marine transaction, but it could not sustain another slow, painful integration.

Those issues aside, the West Marine management team was ready to start growing again. As Nelson put it, "We had invested millions of dollars in infrastructure, getting good people, supporting them, giving them time to get their operations in order. Finance was fixed. IS was fixed. Logistics and the supply chain were fixed. We had become lean and we were getting good numbers. We were anxious to do something."

With peak season rapidly approaching, Edmondson decided that if West Marine was going to move forward with the acquisition, it needed to integrate the two companies within 60 days. "When I told him it might take four to six months to get the systems fully integrated, he told me that was the 'wrong answer,'" recalled Schenk. Edmondson's direction was clear: (1) integrate and begin operating as one business within 60 days, (2) ensure minimal disruption to peak season sales, (3) make the acquisition profitable in the first year.

From a supply chain perspective, the acquisition would be challenging. BoatU.S. had approximately the same number of stores as E&B Marine. Yet the integration would be more complicated due to the inclusion of its robust Internet/catalog operations and growing wholesale business. BoatU.S. had its own catalog with a sizable circulation, an extensive Internet store, and a call center in Florida. The company also had a significant loyalty program and marketing flier programs to take into account. From a wholesale perspective, BoatU.S.'s port supply division was less mature and had not clearly defined its customer base (so that numerous retail customers qualified for unwarranted wholesale discounts). To complicate matters further, because West Marine elected not to acquire the BoatU.S. home office staff, the company would have limited assistance from legacy BoatU.S. employees in terms of providing information, continuity, and other forms of assistance related to supply chain planning, forecasting, and replenishment.

Both BoatU.S. and West Marine offered 50,000 SKUs via their stores, Internet sites, and catalogs. Yet, only 10,000 SKUs matched between the two organizations. Similarly, both companies had approximately 750 suppliers, with only 100 in common. West Marine and BoatU.S. were both using EDI, but BoatU.S. transacted with a much smaller percentage of its vendors this way (roughly 30 percent). BoatU.S. did not provide regular forecasts to its suppliers, nor did it participate in any other CPFR® activities. The two companies received

different pricing from suppliers and, in turn, offered different pricing to customers on the same and/or similar products. BoatU.S.'s product assortments were less well-defined, with popular, new products and high-volume/high-margin items missing from certain stores. Clearly, a vendor and SKU rationalization effort would be needed but, if West Marine decided to maintain the BoatU.S. brand, the company would need to purposefully develop a more diverse product base and more unique assortments than ever before.

In terms of its distribution capabilities, BoatU.S. operated one DC in Hagerstown, Maryland. While this warehouse utilized technology that was not available at the time of the E&B Marine acquisition (e.g., bar coding and radio-frequency tracking), the building itself was not conducive to efficient logistics operations and the company's warehouse processes had not been optimized. BoatU.S.'s warehouse management systems were comparable (in terms of functionality and comprehensiveness) to what West Marine was using, but they were not directly compatible. Similarly, the two companies had compatible hardware in its stores, but operated on different point-of-sale software systems. The stores drove the majority of replenishment activities via mostly manual processes.

One additional challenge related directly to West Marine's suppliers. While supplier performance had improved dramatically through West Marine's CPFR® efforts, it still fell short of the company's expectations. While West Marine now felt confident of its own supply chain processes, systems and controls, it could not yet fully depend on its suppliers to keep their promises. Some suppliers had risen to the occasion and were performing at a consistent and reliable level. Others, however, were still unpredictable, disengaged, or unconcerned with West Marine's assessment of their performance. Ultimately, West Marine's management team had to determine if its confidence in its own internal supply chain operations was strong enough to offset the remaining weakness in its vendor community.

#### **FULL SPEED AHEAD**

To achieve the company's objectives for the BoatU.S. acquisition, the West Marine management team had prepared a plan to overcome and manage the many obstacles and risks that might prevent it from quickly getting the newly combined organization on an even keel. The team was certain that West Marine was better prepared for this acquisition than it had been for the E&B Marine transaction. However, each member wondered what new "soft spots" might be discovered as the company again ramped up its growth engine on its way to becoming a \$1 billion business.

### Exhibit 1 Illustrative Store and Product Photos





Source: Photographs provided by West Marine.

**Exhibit 2**  
**Timeline of Company Milestones (through 2002)**

Yr	# Stores	Sales (000,000)	EPS	Major Milestones
1968				Randy Repass, founder and chairman of the Board of Directors, began selling rope by mail-order out of his garage under the name West Coast Ropes. The only product offered is a 3-strand nylon rope.
1975	1			The first West Coast Ropes store opened in Palo Alto, California.
1977	2			The Company acquired Boston-based West Products, a well known mail-order business, and changed its name from West Coast Ropes to West Marine Products. The second store opened in Oakland, California.
1980	3			Store three opened in Sausalito, California.
1983	8			Acquired five-store Newport Supply chain in Southern California. Opened South San Francisco store.
1986	13	\$31.8		The Company acquired three-store Cal Marine chain in the Pacific Northwest.
1988	16	\$56.3		The Company introduced its first Master Catalog, 330 black-and-white pages packed with boating gear. The first West Marine Pacific Cup race from San Francisco to Hawaii took place.
1991	19	\$74.8		West Marine opened its first stores on the East Coast in Miami and Annapolis. More stores followed in Florida, Virginia, New York, Connecticut, Rhode Island and Massachusetts.
1993	37	\$122.8		The Company went public under the symbol WMAR on the Nasdaq exchange. The Initial Public Offering was for 1,800,000 @ \$14.00/share.
1995	72	\$224.2	\$0.61	Follow-on offering of 1,380,000 shares made @ \$24.75/share.
1996	151	\$323.3	\$0.68	Opened Hollister Distribution center in California. West Marine merged with one of its oldest and most respected competitors, E&B Marine. After the completion of the merger, West Marine had 150 stores across the U.S.
1998	212	\$449.3	\$0.06	Opened Rock Hill distribution center in South Carolina. John Edmondson joined West Marine as President and Chief Executive Officer.
1999	227	\$486.5	\$0.50	Ken Corwin joined West Marine as senior vice president of merchandising. Pat Murphy joined West Marine as senior vice president of logistics. Larry Smith joined West Marine as senior vice president of planning & replenishment.
2000	233	\$508.4	\$0.42	David Schenk joined West Marine in October of 2000 as vice president and CIO.
2001	240	\$512.9	\$0.77	West Marine exceeded 1,000,000 in West Advantage customer loyalty members. More than 98% of inventory replenishment now automated.
2002	257	\$530.6	\$0.97	Opened two new stores in Canada and two new West Marine Express stores.

Source: Information provided under "Investor Information/Timeline" at [www.westmarine.com](http://www.westmarine.com).

### Exhibit 3 Highlights from 2002 Analyst Report

#### West Marine's Historical Performance

	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Stores</b>	37	54	72	151	184	212	227	233	240
<b>Store Growth</b>	37%	45.9%	33.3%	109.7%	21.9%	15.2%	7.1%	2.6%	3.0%
<b>Sales (000,000)</b>	\$123	\$170	\$224	\$328	\$421	\$545	\$492	\$508	\$513
<b>Sales Growth</b>	26.5%	38.4%	31.9%	46.2%	28.3%	8.0%	8.3%	3.3%	0.9%
<b>EPS</b>	\$0.34	\$0.45	\$0.61	\$0.79	\$0.86	\$0.14	\$0.50	\$0.50	\$0.77
<b>EPS Growth</b>	13.3%	32.4%	35.6%	29.5%	9.6%	-83.5%	252.1%	0.0%	54.2%

#### West Marine's 2002 Market Position Relative to Top Competitors

	West Marine	BoatU.S.	Boater's World
<b>Sales (000,000)</b>	\$440	\$120	\$80
<b>Market Share*</b>	7.3%	2.0%	1.3%
<b>Total Stores</b>	252	63	100

\* Based on an estimate that the total boating market is approximately \$6 billion in size.

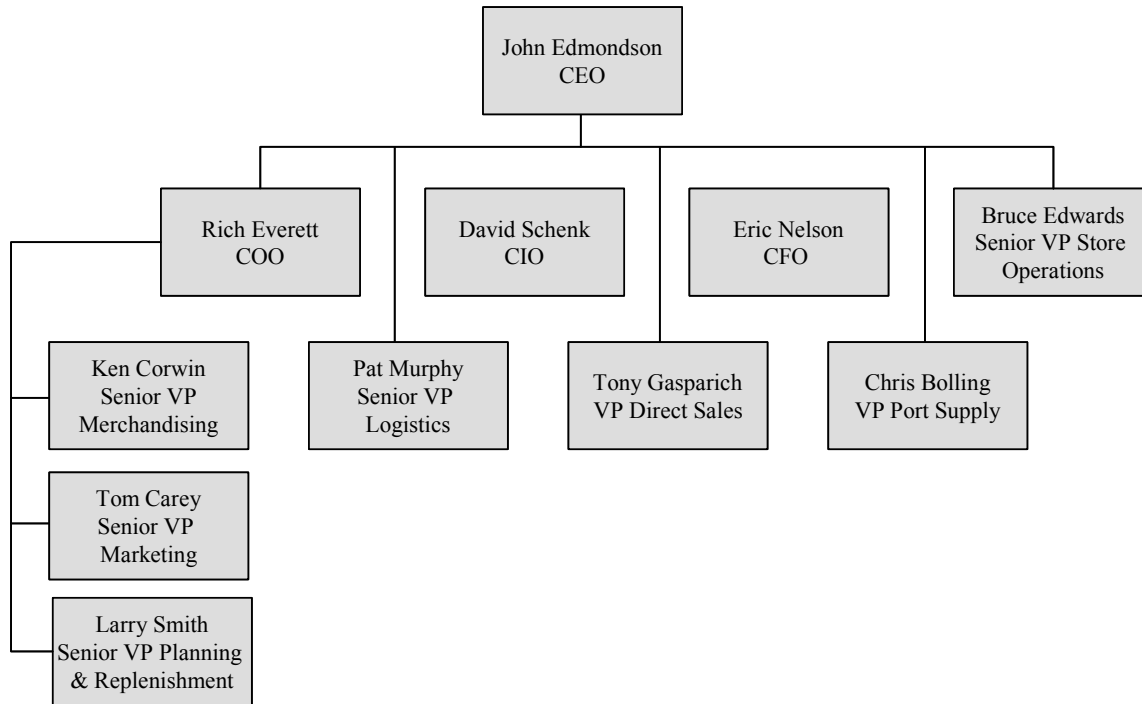
#### West Marine's Store Location Mix Relative to Industry

Percent of Retail Sales	West Coast	Northeast	Southeast
West Marine	32%	37%	31%
Industry**	40%	33%	27%

\*\*Estimated by RBC Capital Markets using data from NMMA 1999 U.S. Recreational Boat Registration statistics.

Source: Compiled from an RBC Capital Markets report titled "West Marine Inc: The Clear Leader in a Fragmented Market" (October 15, 2002).

### Exhibit 4 Partial Executive Organization (2003)



Source: Information provided by West Marine.

## **Exhibit 5**

### **Partial List of Key West Marine Team Members (2003)**

**Chris Bolling** – Chris Bolling joined West Marine in 1994 and has been responsible for real estate strategy, market research, and support of new company initiatives. He has had a role in growing the store base from 54 units to over 350 units and was actively involved in the company's expansion into Canada, the development of the small format West Marine Express stores, and the company's most recent acquisitions. Bolling also managed West Marine's wholesale division, where he developed a regional sales and support structure to address the needs of multiple market segments.

**Tom Carey** – Tom Carey joined West Marine as the senior vice president of marketing in 2003. He was the senior vice president of marketing for Goody's Family Clothing Inc. from 2001 to 2002, senior vice president of marketing for Sunglass Hut International from 1999 to 2001, vice president of marketing for Bloomingdale's from 1997 to 1999, vice president of marketing for Builder's Square from 1994 to 1997, and Fogarty Klein & Partners from 1994 to 1995. Before that, Carey worked for advertising agencies including Ogilvy & Mather and Young & Rubicam, for clients such as American Express, Lincoln Mercury, Kenmore and JC Penney.

**Ken Corwin** – Ken Corwin joined West Marine in 1999 as the senior vice president of merchandising and general merchandise manager. He has 34 years of experience in all facets of retail management. Corwin served as the president of World Duty Free International's airport division from 1998 to 1999, senior vice president for Venture stores from 1997 to 1998, and vice president-director of stores for Gottschalk's from 1990 to 1997. He also held merchandising management positions with both Target and the J.C. Penney Company from 1971 to 1988.

**John Edmondson** – John Edmondson joined West Marine in 1998 as the company's president and chief executive officer. Edmondson was formerly president and CEO of World Duty Free International, Inc. where he helped lead the industry-leading retail organization to significant sales and profit growth. He joined World Duty Free in 1992 as president of the company's largest operating divisions. During his tenure with the organization he also held the role of corporate chief operating officer. Edmondson began his career with Allied Store's Maas Bros./Jordan Marsh division in 1965 and held various senior management positions with several retailers. From 1976 to 1980 he served as senior vice president and general merchandise manager of Allied Store's Joske's of Texas division before leaving to join Federated Department Store's Filenes division in Boston. Prior to joining World Duty Free International Inc., Edmondson was general manager of Marriott's Host and Sports & Entertainment divisions.

**Bruce Edwards** – Bruce Edwards joined West Marine in 1985 and has been responsible for running all three of the company's profit centers (catalog, port supply, and stores). He had an instrumental role in the long-term growth of West Marine from 10 to 350 stores, including active management of over 10 of the company's acquisitions. Edwards has been involved in the marine industry his entire career and has a background in sail making and boat building.

**Rich Everett** – Rich Everett served as a director of West Marine since 1994 and as the company's chief operating officer since 1995. From 1998 to 2001, Everett was president of stores. In this role, he directed the day-to-day operations and expansion of West Marine's nationwide retail store network and (effective in 2001) oversaw the company's catalog and Internet divisions. From 1996 to 1998, he served as executive vice president and has held various other positions since joining West Marine in 1981.

**Tony Gasparich** – Tony Gasparich served as vice president of Internet at West Marine since 1999. In 2002, he assumed the role of vice president of direct sales (catalog and Internet). In this position, he directs day-to-day operations and strategic direction for the direct sales division. Between 1997 and 1999 he served as merchandise manager, and has held various other positions since joining West Marine in 1979.

**Pat Murphy** – Pat Murphy joined West Marine in 1999 as the senior vice president of logistics. He has vast experience working in the retail industry with a focus on logistics and distribution. From 1993 to 1999, Murphy was group vice president of logistics for Borders Group, Inc. He served as general manager and president of the Midwest operating division of the Southland Corp. from 1989 to 1992, as director of distribution for Wilson Foods from 1985 to 1989, and as general manager for Levi Strauss & Company's distribution center from 1980 to 1985.

**Eric Nelson** – Eric Nelson joined West Marine in 2000 as the controller and vice president of finance, then moved into the roles of chief financial officer, chief accounting officer, senior vice president of finance, and secretary. Previously, Nelson served as CFO for Dental Components International from 1999 to 2000, CFO for Fluid-Air Components from 1995 to 1999, and CFO for Etcetera Retail Chain Stores, Inc. from 1989 to 1994. He also worked as a "troubled company" turnaround specialist from 1994 to 1995 and was the assistant controller for May Department Stores from 1979 to 1989.

**David Schenk** – David Schenk joined West Marine in October 2000 as vice president and chief information officer and was soon promoted to senior vice president. As the leader of information systems for the company, he oversaw software development, retail systems, and network systems and security. He and his team were responsible for supporting over 350 West Marine retail stores, plus West Marine's catalog, Internet and port supply/wholesale businesses. Prior to West Marine, Schenk was a corporate senior vice president for McKesson Corporation for 18 years, where he was responsible for several business units including software implementation and support, outsourcing and network design, installation and support.

**Larry Smith** – Larry Smith joined West Marine in 1999 as the senior vice president of planning and replenishment. Prior to joining West Marine, Smith served as the divisional vice president of planning and replenishment for Kmart Corporation from 1996 to 1999. He also served as the director of planning & replenishment for Staples from 1995 to 1996 and the director of inventory management for Kaybee Toy Stores from 1994 to 1995. Smith published several articles and received RIS News Magazine's "Retail Pacesetter Award" in June of 2003, honoring the 20 leading retail technology executives.

**Exhibit 6**  
**West Marine Strategic Framework**

**VISION**

**The best boating products company,  
every day.**

**STRATEGIC PERFORMANCE INDICATORS**

ROE, Cash Flow, Comp Sales, EPS, Product Service Levels, Market Share,  
Customer Satisfaction, Associate Satisfaction

**CRITICAL SUCCESS FACTORS**

**CSF #1**  
Efficient, reliable,  
accountable, and  
quality execution

**CSF #3**  
Right product  
assortments at the  
right place at the  
right time

**CSF #5**  
Effective mktg strategy  
that communicates our  
leadership position &  
grows brand equity

**CSF #2**  
Best of class supply  
chain management

**CSF #4**  
Strong customer  
relationship culture  
that maximizes sales,  
profitably

**CSF #6**  
High Performing  
team of motivated  
professional,  
associates

Source: Information provided by West Marine.

**Exhibit 7  
CPFR® Process Model**

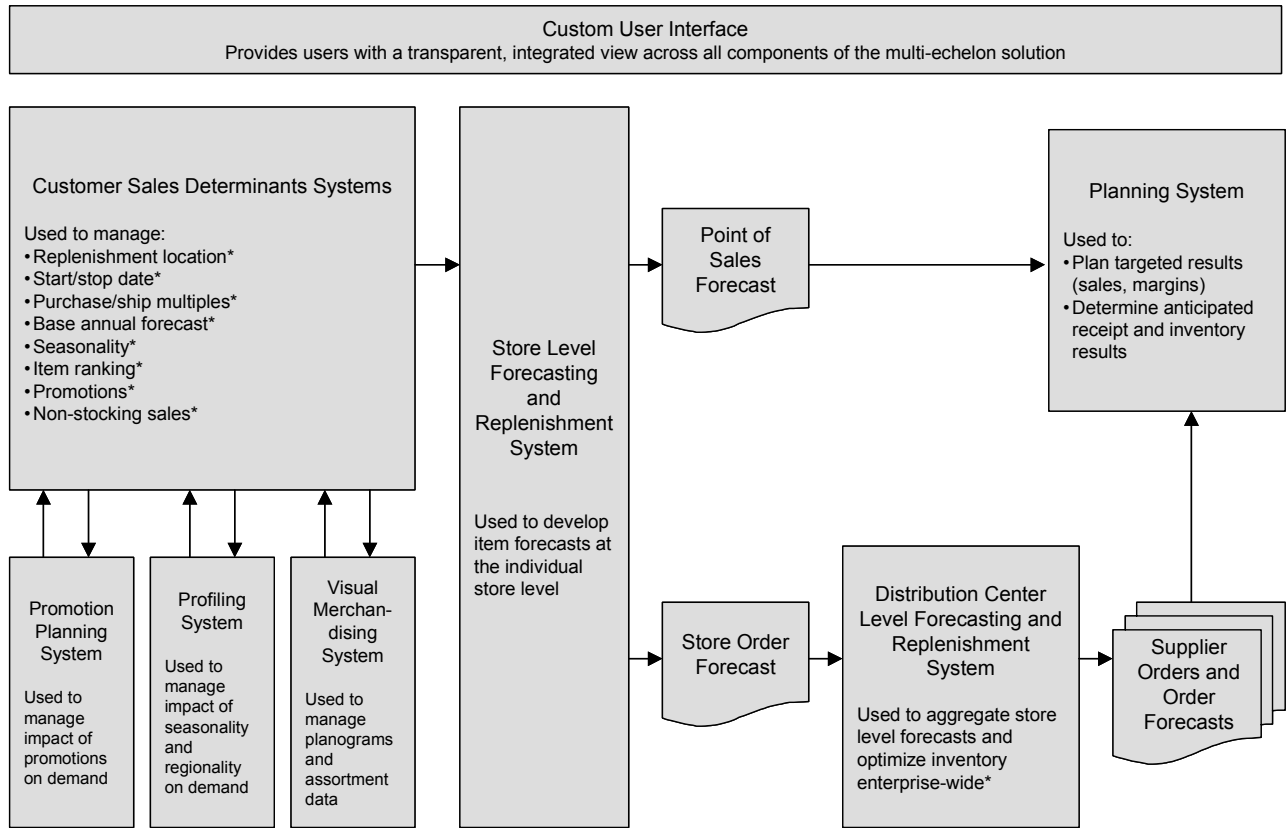


**Collaboration Roles**

Alternatives	Sales Forecasting	Order Planning/ Forecasting	Order Generation
Option A: Conventional Order Management	Retailer	Retailer	Retailer
Option B: Supplier-Managed Inventory	Retailer	Manufacturer	Manufacturer
Option C: Co-Managed Inventory	Retailer	Retailer	Manufacturer
Option D: Retail Vendor-Managed Inventory	Manufacturer	Manufacturer	Manufacturer

Source: *CPFR® Overview*, May 18, 2004. Copyright © Voluntary Interindustry Commerce Standards (VICS) Association. All rights reserved. Reprinted by permission of VICS.

### Exhibit 8 West Marine's Multi-Echelon Replenishment Solution



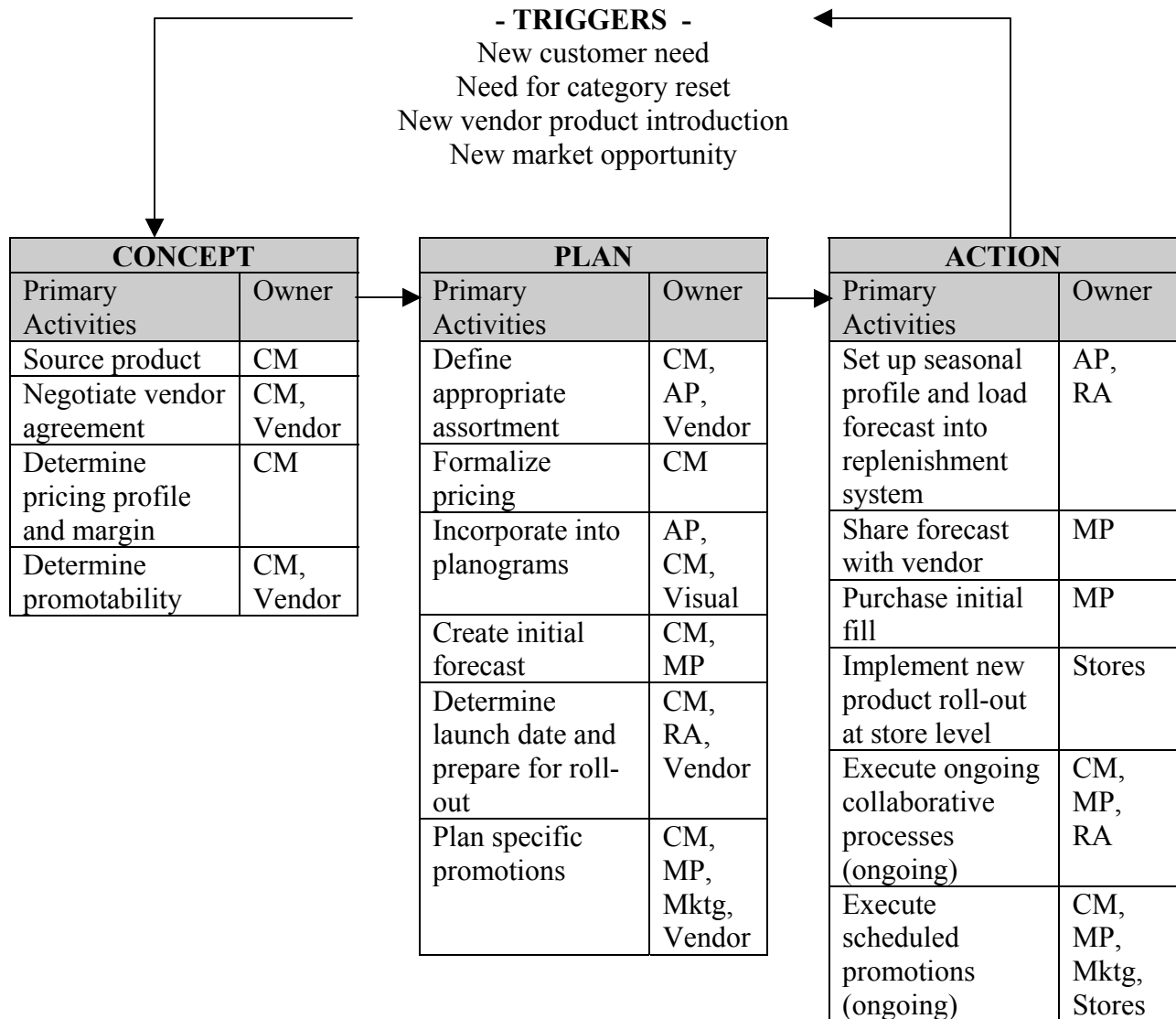
\* Prior to the implementation of the multi-echelon solution, these activities were performed manually (or not done at all)

Source: Information provided by West Marine.

### Exhibit 9 Collaborative West Marine Supply Chain Process

**Legend**

CM = Category Management  
 AP = Assortment Planning  
 MP = Merchandise Planning  
 RA = Replenishment Analysis  
 Mktg = Marketing  
 Visual = Visual Merchandising



Note: Process simplified for illustrative purposes.

Source: Information provided by West Marine.

### Exhibit 10 Sample Vendor Performance Reports

#### Weekly Instock E-mail

**The current instock results for LEWMAR, supplier #012123 items at West Marine this morning is as follows:**

**Instock percent in West Marine Stores is 97.70%. West Marine's goal is 96% instock in every store every week.**

**Late Orders, reflecting late shipments for EDI suppliers, and late receipts for non-EDI suppliers: \$1,700.**

**Understock at West Marine stores, items you and West Marine would ship to stores now, but which are not available: \$2,520.**

**Thanks for your ongoing commitment to growing your sales with West Marine. Great Job!**

#### Weekly Instock Analysis

User: NANCIA		West Marine		System: WMC400			
Job: INSTK_ANAL		Supplier Instock Analysis		Date: 2003-03-31			
Pgm: RP3148R		Supplier: #012123		Phn: 1-800-362-7212			
		LEWMAR		Fax: 1-203-453-5669			
				Page: 1			
Item	Vendor	Item #:	Description/Text:	ABC Rank	<== Understocked ==> Units \$ Cost	Stores Out	<=== Late P/O's ===> Units \$ Cost
318057	0057410		ANCHOR-DELTA FS 22LB	C	12 1,501	12	
318065	0057416		ANCHOR-DELTA FS 35LB	C	1 162	1	
162821	39930030		HATCH- L/ P 30 SMDKE	D	2 363	1	
168427	BT00330		PAWL	D	29 98	9	36 122
184390	29906601		BLK 60 FOOT	D	3 82	1	
3380144	29927201		BLK- S7 SCHAKL	D	5 82	4	
166595	BT00209		PAWL SPRNG	D	127 69	19	200 110
271148	1260/7		LARGE PAWL SPRNG	D	109 57	23	288 152
213116	BT01045-125		SNAPRING-W NCH	D	26 52	5	58 116
2678175	361041990		VENT-CABI N HATCH	D	2 50	1	
271221	1260/8		PAWL- ALL WINCHES	D	1 4		20 93
Total:					317 2,520	76	602 593

\*\*\*\*\* End-of-Report \*\*\*\*\*

Source: Information provided by West Marine.

## **Exhibit 11**

### **West Marine CPFR® Vendor Success Stories**

#### ***Interlux***

Interlux supplied more than 500 products to West Marine, including key items like bottom paints and varnishes required to help boaters prepare for the peak boating season each spring. If West Marine did not have these products instock at the beginning of the season, these sales would potentially be lost until the beginning of the following season (painting was typically done annually, before the first time a customer put his/her boat into the water for the season).

Initially, Interlux agreed to participate in West Marine's CPFR® program, but did not invest itself in the process. The company did not use the forecasts provided by West Marine to plan advanced production or build up safety stocks prior to peak season. As a result, when preseason demand for products like bottom paint ramped up, the company's standard production capacity could not keep pace with West Marine's needs. When boaters needed Interlux products the most, West Marine was unable to keep them stocked in the stores. In a single season, West Marine estimated that it lost more than \$1 million in sales of Interlux products due to late shipments and instock problems.

At the urging of West Marine's category management team for maintenance products, the Interlux team finally agreed to more actively begin using the forecasts and collaborating with West Marine to resolve these supply chain challenges. The head of Interlux's U.S. operations began regularly participating in monthly collaborative calls with West Marine's merchandise planner, along with representatives from the company's vendor relations, logistics, and customer support teams. The company also dedicated an analyst to carefully study West Marine's projections and determine the most effective way to incorporate them into the company's advance planning processes.

Working together, the two organizations collaboratively implemented significant improvements. By the next spring season, the company's instock rates improved from 94 percent to 97 percent in all stores. Similarly, Interlux increased its on-time shipments to West Marine by more than 55 percent. Sales climbed by more than 17 percent over the previous season. Improved supply chain effectiveness also enabled West Marine to rely on Interlux to ship more than \$1.1 million in products directly to its stores (up from \$200,000 the previous year), thereby reducing the time required to move products to the stores, saving West Marine significant logistics costs, and reducing seasonal bottlenecks in West Marine's DCs.

Interlux is now one of West Marine's greatest CPFR® advocates, and both companies are directly benefiting from increased cooperation and collaboration.

#### ***RayMarine***

RayMarine provided West Marine with a wide variety of high-end marine electronics, including radar and GPS systems and related accessories. Formerly a division of Raytheon, the company became an independent organization just as West Marine was implementing its CPFR® program. However, rather than using West Marine's forecasts to begin operating more efficiently (in its new, leaner environment), the company reduced its safety stocks, planned its

product lifecycles, and scheduled production with little or no direct input from West Marine (or its other customers). As a result, RayMarine was frequently caught by surprise when West Marine's purchase orders arrived (despite their inclusion in the forecasts), leading to late and incomplete shipments, as well as instock levels well below target. RayMarine also began discontinuing its products every 18 months without providing notice to West Marine. With these items discontinued faster than West Marine could sell them (high-end electronics products turned over at a rate of just 80 percent a year), the short product lifecycles caused RayMarine's total SKU count with West Marine to mushroom. This also left West Marine with a sizable backlog of discontinued products, as well as cables and other accessories that only worked with items that were no longer produced.

West Marine had been providing weekly forecasts and performance reports to RayMarine for quite some time. When the company finally began to review them in detail, they realized how inefficient their interactions with West Marine had become. At this point, RayMarine engaged with West Marine's category management team for electronics and actively started to collaborate. Through a series of frank discussions, RayMarine started to better understand West Marine's forecasts and appreciate the impact of its short product lifecycles on the company.

RayMarine extended its product lifecycles to three years and reduced its total SKU count by more than 30 percent, in part by designing cables and accessories that would be backward-and-forward compatible (to work with old and new products). RayMarine also dedicated an analyst to reviewing its sales with West Marine and helping the company reduce its discontinued inventory (suggesting where to move it, how to price it, etc.). This effort enabled West Marine to decrease its backlog of discontinued items by more than 50 percent. By using West Marine's forecasts, RayMarine also increased its instock rate to levels well above West Marine's target. Through better instore availability and more collaborative sales planning, the two companies also drove a 40 percent sales increase over the previous year.

Even while still in the midst of a transition, West Marine and RayMarine, both acknowledged having benefited from increased collaboration, and had every intention of staying the course.