

CPFR®: The 21st Century's Most Powerful Process for Consumer Satisfaction

By Michael J. Peterson

CPFR® is the 21st Century's most powerful process for consumer satisfaction. Giving strategy, purpose, and structure to retailer-vendor partnerships, it is the culmination of years of struggle between their competing priorities. But by the end of 2002, only the gorilla chains of Walmart and Target have done enough CPFR® pilots to aggressively expand this technique to a sizable portion of their sales volume.

Any other retailer who hopes to execute well enough to grow in the 21st Century must take the leap required to move forward with their major vendor partners. The CPFR® framework for creating demand based manufacturing and store inventory has been proven to increase sales and profits. Senior management must understand this and commit to it, making it a corporate priority, otherwise the organization will not adapt CPFR® on their own. Processes may have to change, especially those that cross functions internally.

Collaboration

Only by working together toward the same goal can any partnership reward both parties. If the retailer's version of just in time means vendor holds the goods until my stores need it, or the manufacturer rewards its team solely on selling more product than last year, one side or the other gets squeezed on profits by carrying too much of the inventory load. Instead of win/win, it's "I win, you figure out how to win." However, if the manufacturer and retailer can agree that their common goal is to satisfy as many customers as possible, at the highest profit to both parties, they can each win and both make more money.

This new type of collaborative partnership requires a long-term commitment to openly communicate, and share information. Partnering on strategy as well as execution requires trust and commitment, but is the only sustainable way to grow sales and profits. Retailers and vendors who take this long-term view with a majority business will maintain a true competitive advantage.

Step one in Collaboration means agreement to confidentiality, a means to resolve disputes, supply chain scorecard metrics and common incentives or goals (i.e. both parties rewarded on profitability, not just sales volume). Goals should focus on driving the most profitable sales growth possible, and can also include reduction of capital and expense for both parties.

Planning

The original Walmart/Warner Lambert 1995 CFAR (Collaborative Forecasting and Replenishment) laid the groundwork for the benefits to the consumer industry. When the VICS (Voluntary Inter-Industry Commerce Standards) group of industry representatives worked to define the common standards, they saw the need to add "P" to the structure. Joint business planning (categories, brands, assortments, skus, key items, etc.) and financials (sales, fill rates, pricing, inventory, safety stock, gross margin, etc.) assures both parties of equal skin in the game and forces common goals for. In addition, the joint project team develops plans for promotions, inventory policy changes, product introductions and discontinuations, and store groupings.

Forecasting

Either or both parties can do forecasting, but vendor and retailer must agree to the final working forecast. The vendor may have valuable input on the chain level forecast by item, or category, and the retailer may have better tools to build the forecast at the DC or store/sku level. Basic forecasts are system generated based on detailed historical data, and the paybacks for good forecasts are better instocks and sales, with less expense and carrying cost on both sides. Seasonal considerations and trend management information are obviously more important in apparel and other categories, where the payback on better forecasting becomes more sales and fewer markdowns. Also, finalizing joint promotional plans is key to complete forecast accuracy. Manufacturers must build this detailed forecast into their production planning.

Even the best forecast though will need to be monitored and adjusted in-season, and this is where two sets of eyes, focused on the customers' reaction, can be twice as effective. Any of the certified interoperable software packages can trigger forecast differences between vendor and manufacturers systems. Rules need to be determined on how to resolve those variances, but the basic premise of CPFR® is that you solve those differences jointly, with the same end goals.

Replenishment

Sales forecasts must be converted into order forecasts, using Time Series Forecasting or Demand Planning systems. Supplier constraints such as order cycle time, lead-times, order minimums and casepacks must be dealt with, as should the chronic open-to-buy inhibitor on the retailers' side. Collaborative transportation planning has also been identified by VICS as a key lever in replenishment. Exception triggers should include in stock percent, forecast accuracy, safety stock levels, fill rates, lead times, and order approval rates, and should be jointly reviewed monthly on the agreed upon scorecard.

Potentially contentious restraints such as restricted supplier quantity or over-commitments must be dealt with in advance. An expected benefit of close collaboration and partnership should be flexibility and joint reaction to surprises. Holding a retailer locked in to forecasts eight weeks out should no longer be necessary when both partners own the forecast and share in the rewards. Likewise, vendors should be more prone to ship items in short supply to retailers who have entered into this CPFR® agreement.

While establishing a CPFR® program can seem daunting and labor intensive, the risks to survival to those who wait for more proof are high. CPFR® can lay the groundwork for the success of all your other initiatives and priorities, and managing your business by exceptions rather than firefighting can free up merchants' time to be merchants. The program can be piloted manually, but the ROI results will pay for the investment in systems or consultants many times over. The first step is to get your senior managers trained and educated on the ROI benefits. Leadership is needed for this, as any other, important initiative.

About the author:

Michael J. Peterson has been an executive in the Retail business for 27 years, the last 19 at Target Corporation. After joining Target as a buyer, he helped launch the Merchandise Planning Pyramid in 1985, and became Vice President of Merchandise Planning in 1993. After developing Target's Global Merchandise Systems, he spent four years as Sr. Vice President of Merchandise Planning and Merchandise Presentation at Marshall Field's, while he also served on the Board of Directors of the Voluntary Interindustry Commerce Standards (VICS) Association. He currently runs his own consulting practice out of an office in Wayzata, Minnesota, specializing in Merchandise Planning, Supply Chain, and Merchandising Systems. Clients include Federated Department Stores and Teradata Division of NCR.

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