MISE EN ŒUVRE DE MEILLEURES PRATIQUES LOGISTIQUES
Document de synthèse

IMPLEMENTING LOGISTICS BEST PRACTICES
Executive Summary

April 1999   **Avril 1999**

The Boston Consulting Group

ECR*France*

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Foreword

ECR France was founded in 1997 on the initiative of 24 companies representing retailers and producers of fast-moving consumer goods in France.

ECR France aims to create a framework for dialogue to promote the ECR concepts defined at European level, in order to encourage improvements to the supply chain, facilitate ECR implementation and provide support for bilateral initiatives in France.

These ECR concepts are grouped into 3 areas and form the main body of ECR France's specific programmes :
- *Demand Management*
- *Supply Management*
- *Enabling Technologies*

The "Implementation of Logistics Best Practices" project arose from a joint decision between manufacturers and retailers who met at ECR France, to make a concerted effort towards optimising the supply chain by:
- *Taking into account the specifics of the situation in France*
- *Generalising overall best practices*
- *Developing attractive economic solutions which require a minimum level of «critical mass» for dissemination within companies, in order to maximise gains.*

Certain solutions for optimising the supply chain could not be put in place efficiently on a one-to-one basis. They are, for example:
- *Certain groupings of flows between a number of partners*
- *Certain savings linked to the adoption of a common denominator to all the participants in the chain.*
- *Certain solutions which need to be applied to a significant part of the operations of each player, in order to justify the implied investments.*

*A collective approach is therefore necessary to rapidly pass on these solutions and obtain **the critical mass** required to fully establish them.*

The Boston Consulting Group was chosen to co-ordinate this project. This document provides a summary of the analyses and recommendations made by the relevant working groups. Through the solutions described, the partners would not only significantly reduce their interface costs but more importantly they would improve their service levels to the consumer.

We hope that with this project, ECR France contributes in a constructive way towards the improvement of the supply chain in France. Our wish is to see a continuation of the positive steps which are already under way.

François Barbier   Christian Couvreux
General Manager / CEO   *Chairman of the Board*
UNISABI   CASINO
                              ECR France Co-chairs

Participants
Participating Members

Co-pilotes des 3 groupes de travail
Co-leaders of the 3 work groups

Casino[2]	L. Thoumine	**CPC**[1]	R. Fuhrmann
Promodès[1]	JM. Bru	**Danone**[3]	F. Raffin
Système U[3]	A. Roquefelte	**Nestlé**[1]	JP. Zablith
		P & G[2]	S. Secret
		Unisabi[2]	B. Bourgeon

Participants

Comptoirs Modernes[1]	D. Parise / C. Massebeuf	**Henkel**[1]	O. Girard
Comptoirs Modernes[2]	M. Gautier	**Henkel**[2]	R. Guérin
Comptoirs Modernes[3]	G. de Lesquen	**Herta**[3]	JP. Leclerc
Décathlon[2]	T. Jouenne / H. Pollet	**Heudebert**[1]	G. Blanchard
Prisunic[2]	R. Dassonville	**Interbrew**[2]	P. Robert
Prisunic[3]	P. Magnier	**KJS**[1]	B. Pelletier
Prisunic[1]	M. Lapassat	**KJS**[2]	M. Fradin
Promodès[3]	D. Thibault	**Lascad (L'Oréal)**[2]	M. Aube
Système U Mulhouse[2]	M. Landry	**Lesieur**[2]	JM. Buteux
Télémarket[3]	JP. Raffin	**Lever**[2]	J. Chandon
		L'Oréal[1]	N. Lepoutre
		Lu[1]	M. Bonfils
Amora Maille[2]	B. Mary	**Lu**[2]	L. Joudat
Astra Calvé[3]	X. Perraudin	**Mc Cain**[1]	JF. Delage
Bongrain[3]	L. Boulez	**Nestlé**[2]	J. Pétiard
Chambourcy[3]	J. Poulet	**Panzani WS**[1]	G. Dieval
Coca-Cola[2]	O. Fourmy	**Panzani WS**[2]	C. Pélisson
Cogesal[1]	T. Schrimpf	**Paul Prédault**[3]	H. Gaudriot
Colgate[1]	AM. Farigoule	**Pernod**[1]	E. Pajot
Colgate[2]	P. Vasseur	**Pernod**[2]	E. Pajot
CPC[2]	P. Schrick	**Rivoire & Carret Lustucru**[1]	A. Moruzzo
Diepal[2]	B. Meneret	**Rivoire & Carret**[2]	P. Roche
Douwe Egberts[2]	JM. Laperelle	**SCA Molnlyke**[2]	C. Six
Elida Fabergé[1]	I. Depoorte	**Schweppes**[2]	M. Duhamel
Fralib[1]	M. Fabre	**Seagram**[1]	M. Pietri
Fromagerie Bel[3]	C. Werkmeister	**Spillers**[2]	C. Bromhorst / AC. Sicot
Générale Traiteur[3]	P. Vincent	**Vandame**[1]	M. Deletage
Heineken[2]	H. Le Huédé	**Vania**[1]	A. Mathieu
		Yoplait[3]	F. Robin

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[1] Group 1 : Infrastructure and flows – Dry goods
[2] Group 2 : Supply Chain – Dry goods
[3] Group 3 : Infrastructure, flows and Supply Chain – Chilled goods

Introduction

This document reviews the main conclusions of the ECR France manual entitled « Implementation of Best Logistics Practices». This document describes in detail the work undertaken and solutions by our 3 work groups which met over a period of 8 months and formulated commonly agreed conclusions for both producers and retailers. By presenting operational logistics methods its aim is to facilitate the successful implementation of ECR's concepts for interested companies.

*The **objectives** of the project can be summed up in the five following points:*

1. ***Analysis and Examination** of the French supply chain currently in place*

2. ***Identification and description of best practices in logistics,** in particular those which, due to the attainment of critical mass, enable the achievement of profits not possible on a one-to-one basis.*

3. ***Creation of a dynamic for change** and facilitating the dissemination of solutions, by understanding the conditions and key success factors for their implementation in the French context.*

4. ***Quantifying target results.***

5. *Validation and **promotion of collaborative solutions, by means of pilot projects**.*

This document reflects the results of sustained efforts by 65 delegates representing 48 ECR France member companies and demonstrates the overall positive dynamic already underway between retailers and manufacturers to efficiently deal with subjects of common interest. Such matters often necessitate a critical mass so as to allow companies to benefit from all the potential advantages

Our sincere thanks go to our supportive member companies and their representatives who participated in each of our 3 work groups and are grateful for their excellent contributions and the variety of solutions they put forward.

*The intense efforts and work carried out from the beginning to the end of the « Implementation of Logistics Best Practices» project could not have delivered positive results without the dedicated collaboration of **The Boston Consulting Group.**, a committed and efficient partner of ECR France.*

Olivier Labasse
Secretary General
ECR FRANCE

Philosophy and Objectives of the Project

The first phase of the « Implementation of Logistics Best Practices» project launched by ECR France in 1997 has 3 main aims :
- *To evaluate the logistics supply chain in France and possible improvements;*
- *To explain conditions for putting in place best logistics practices, based on the practical experience of the participants;*
- *To identify and quantify the interface costs and potential for improvement linked to the implementation of solutions by a large number of players.*

The French food retail context has a number of specific characteristics :
- *Dominance of hypermarkets and relatively high average size of Points of Sale*
- *High concentration of the retail sector and heavily grouped flows (across either integrated or provided logistic systems)*
- *Co-existence of integrated logistics and service organisations.*

*This explains (as is illustrated below) the relative efficiency of the French supply chain compared with other countries. Thus, **the cost of the interface** between producers and retailers is estimated **in France to be 17 % of the Retail Selling Price (RSP)** before tax. Nevertheless, this still constitutes a significant part of the total cost structure and it is possible to further reduce these costs.*

IN FRANCE THE PRODUCER DISTRIBUTER INTERFACE SEEMS "RELATIVELY" MORE OPTIMISED
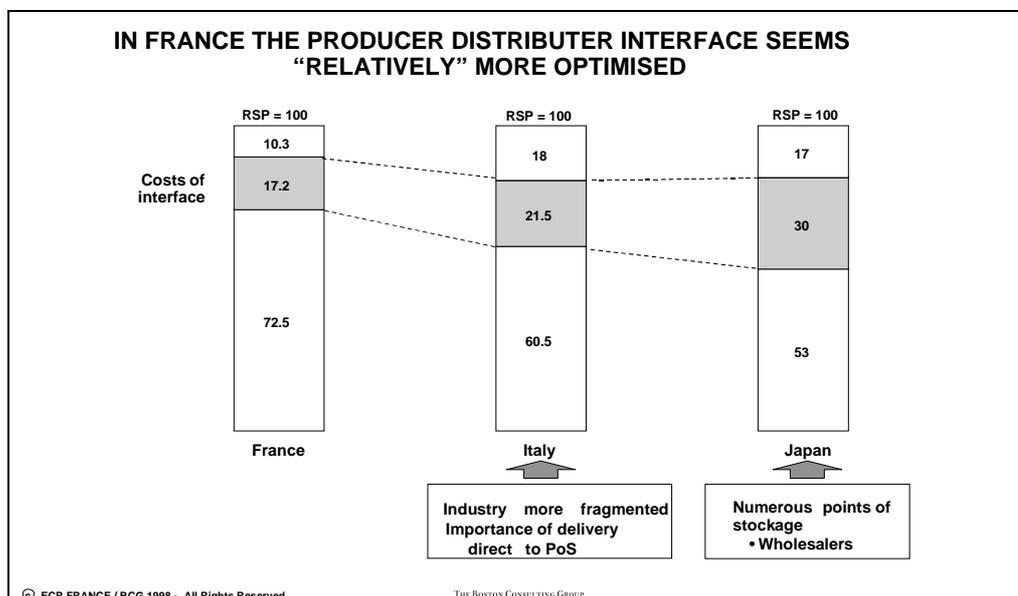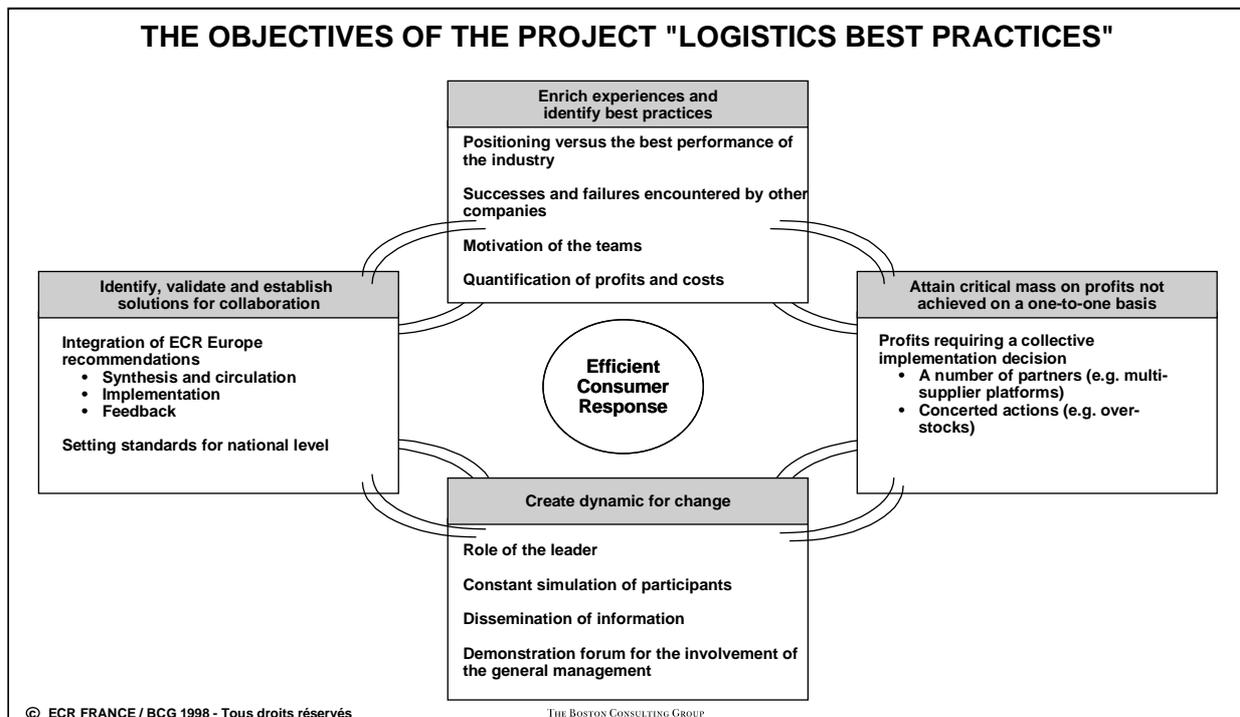
There are three steps in the ECR initiatives which allow concrete results to be obtained from supply chain efficiency improvements and to the quality of services offered to consumers.

- *First step: **individual initiatives** either the retailer or producer, to optimise their internal logistics system*
- *Second step: **bilateral partnerships**. Numerous initiatives have been taken on a one-to-one basis over a number of years and have borne tangible results of their efficiency.*
- *Third step: **The search for critical mass** at an industry level*

Certain optimisation solutions for the supply chain cannot be put in place efficiently on a one-to-one basis. This fact shows the importance of the approach by ECR France and forms the basis for the « Implementation of Logistics Best Practices » project.

*Furthermore, a collective approach is necessary to fully and rapidly spread solutions and to obtain the **critical mass** required for their fully efficient implementation across the entire supply chain.*

THE OBJECTIVES OF THE PROJECT "LOGISTICS BEST PRACTICES"

Enrich experiences and identify best practices

Positioning versus the best performance of the industry

Successes and failures encountered by other companies

Motivation of the teams

Quantification of profits and costs

Identify, validate and establish solutions for collaboration

Integration of ECR Europe recommendations
- **Synthesis and circulation**
- **Implementation**
- **Feedback**

Setting standards for national level

Efficient Consumer Response

Attain critical mass on profits not achieved on a one-to-one basis

Profits requiring a collective implementation decision
- **A number of partners (e.g. multi-supplier platforms)**
- **Concerted actions (e.g. over-stocks)**

Create dynamic for change

Role of the leader

Constant simulation of participants

Dissemination of information

Demonstration forum for the involvement of the general management

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Analysis and Examination

Supply chain optimisation takes into account two aspects :
- ***Optimisation of the infrastructures and physical flows***
- ***Optimisation of the supply chain process***

1.   Optimisation of the infrastructures and physical flows : observations

The analysis of the French logistics chain carried out by all the members of the work groups confirms two essential characteristics of the physical flows :

- *The majority of the food retail channel is used by hypermarkets and supermarkets: they represent around 85% of total volumes.*
- *The high concentration of physical flows in retail **Distribution Centres**: around 90% of volume of dry groceries and almost 80% of fresh products pass through them.*
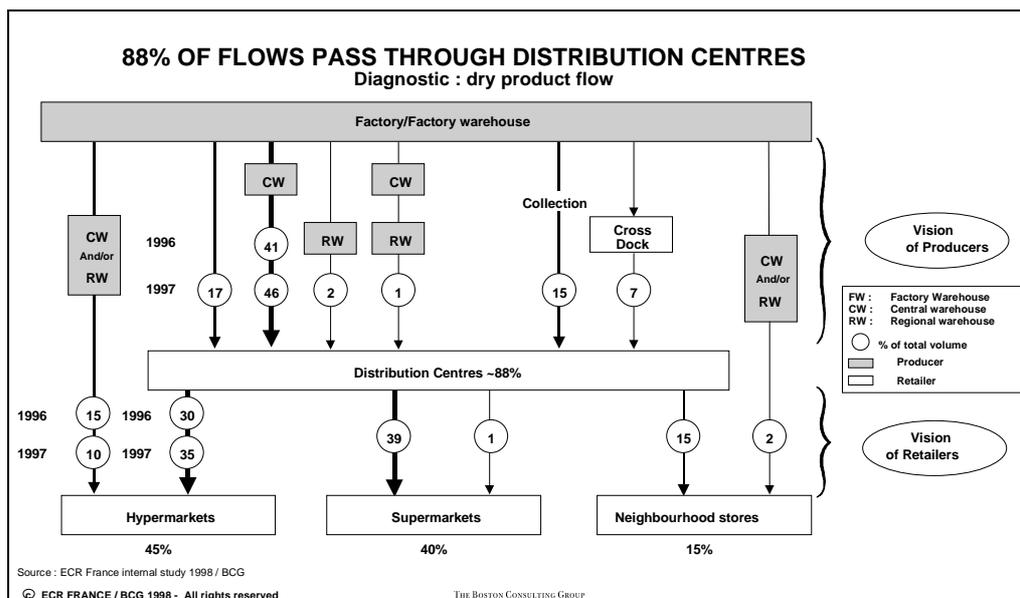
*Despite this, the solution for **grouping the flows** of different partners still appears **limited but is growing rapidly**.*

The direct infrastructure costs and physical treatment of flows is an estimated 8.3% of the RSP, *which amounts to half of the total interface costs, and may be even more if the financial costs of stocks are taken into account, which a more systematic concentration of upstream flows allows to diminish. **The gains from grouping flows are therefore significant.***

INTERFACE COSTS REPRESENT ABOUT 17% OF THE RSP
where 8.3% of direct costs are from infrastructure and physical flow

Source : ECR France internal study 1998 / BCG
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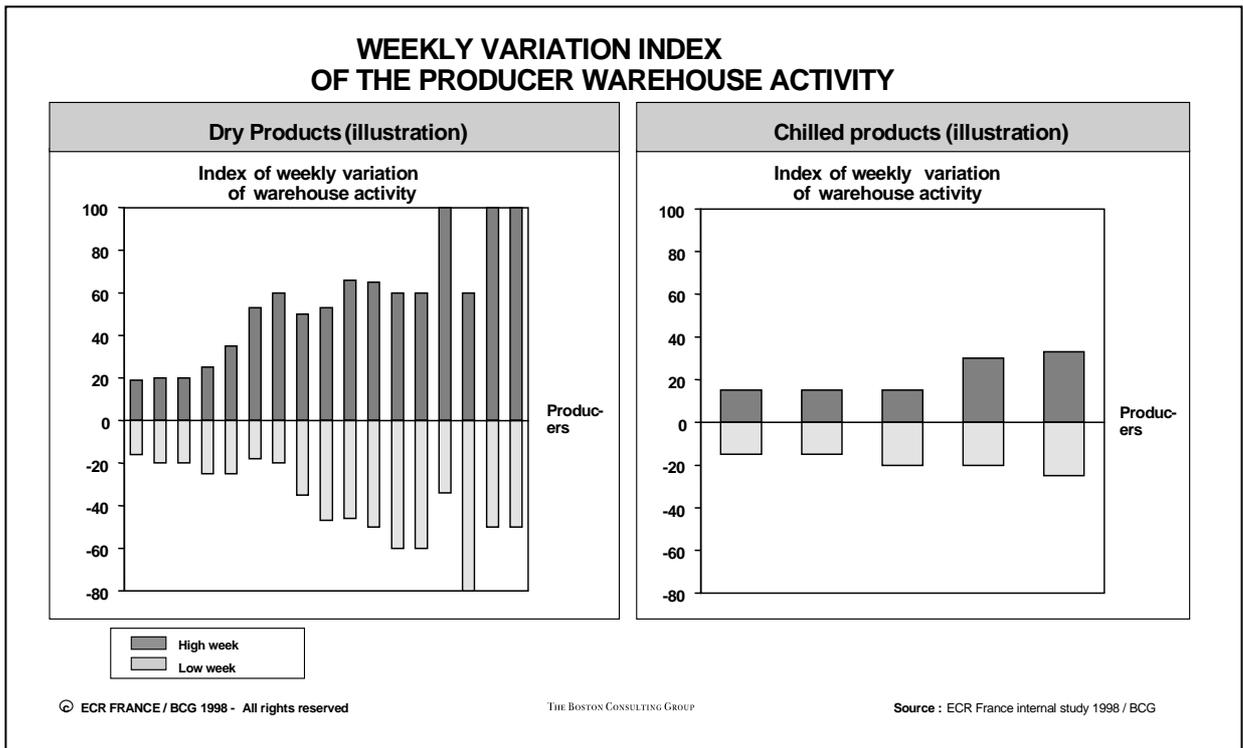Direct costs of infrastructure and physical flows
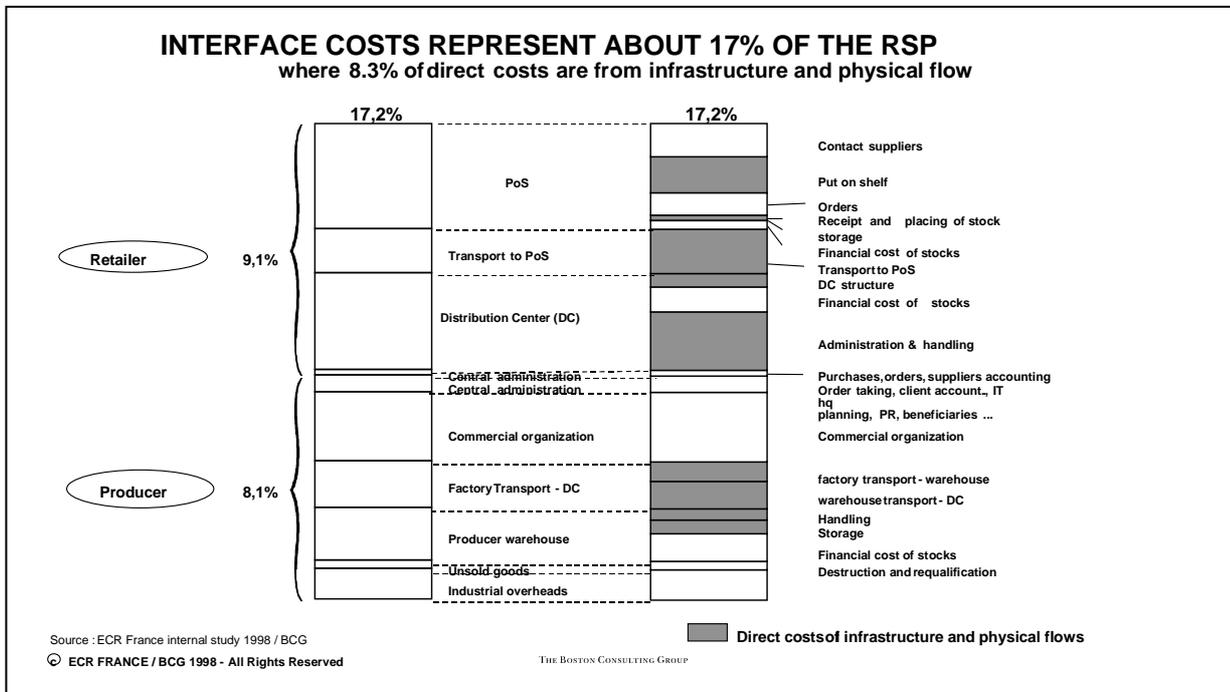
2.   The Supply Chain Process : Observations

*Traditional replenishment methods allow only **limited visibility** of the whole supply chain by the different players. An order is initially drafted at the Point of Sale, passed on to the Distribution Centre, to be transmitted on to the producer. They do not rely on adequate downstream information sharing, which limits each partner's activities to the specific area which they manage directly.*

*This lack of insight and dialogue otherwise translates itself into high **load variations** for the supply chain (see illustration below), leading to significant extra costs :*

- ***Logistic cost overruns** : the infrastructure is sized to absorb peak activity, difficulties in planning deliveries limit the optimisation for utilisation of transport capacities*

- ***Industrial surcharges** : load variations can necessitate the sudden increase of production capacity by resorting to, temporary labour or increased overtime ; the production of short-line series to make up quantities ; more frequent changes on production lines …*

WEEKLY VARIATION INDEX
OF THE PRODUCER WAREHOUSE ACTIVITY

Dry Products (illustration)	Chilled products (illustration)

Index of weekly variation of warehouse activity

Producers

High week
Low week

THE BOSTON CONSULTING GROUP **Source :** ECR France internal study 1998 / BCG

*Finally, traditional organisation is leading towards the **fragmentation of certain processes** between the links of the supply chain, limiting their reliability (lack of coherent calculations at different levels) or which limits their efficiency (total delays, resources required at each level).*

*The costs **directly related to supply chain methods are estimated at 5.2% of the RSP**. Other costs depend partly on processes, such as the producer's sales organisation, or the time spent between the store's department manager and the sales forces of suppliers and can be on average 3.7% of the RSP.*

***Efficient Replenishment (ER)** (and other joint order management processes such as Co-Managed Inventory - CMI) relies largely on the sharing of information between partners, and can allow optimisation of the entire chain. This practice is still limited but is rapidly increasing.*

PENETRATION OF CMI IN FRANCE IS STILL LOW

Illustration : Dry Product flows towards the Distribution Centre (1997)

Number of orders

Volume
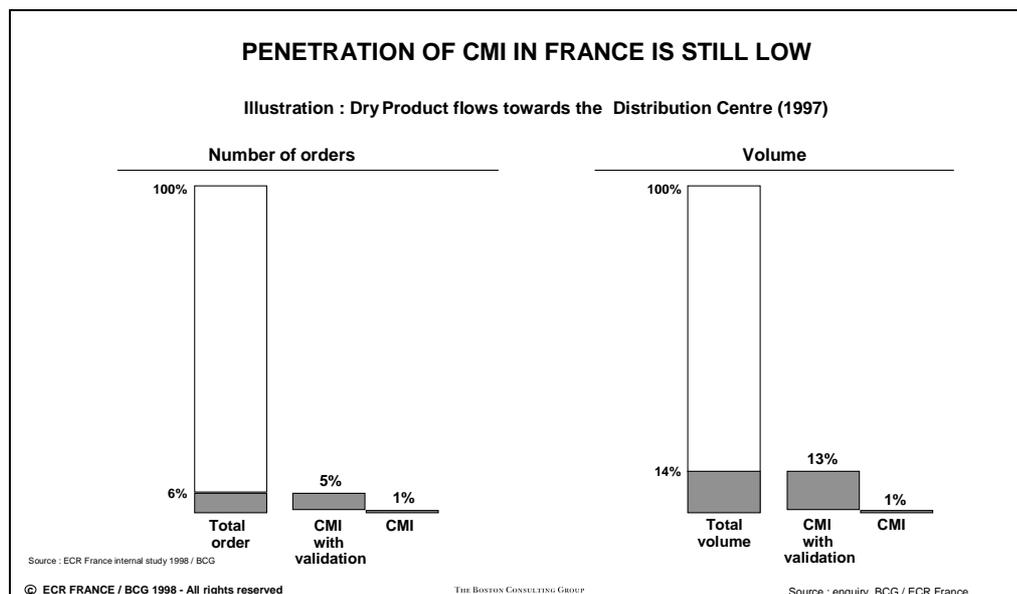
Replenishment optimisation methods represent important potential gains, and all the more so since their efficiency also significantly impacts the optimisation of infrastructures and physical flows mentioned above.

Some French suppliers are already successfully managing over half their flows with CMI.
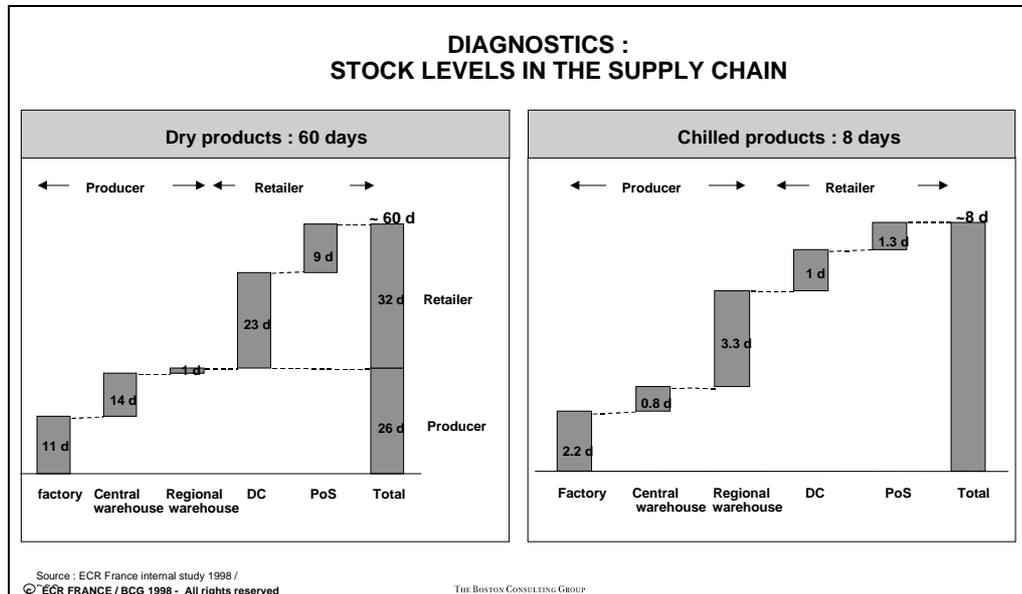
*3.   **Supply chain specifics for « chilled » products and « dry » products (groceries)***

Platforms for optimising the supply chain can vary with the type of products concerned. Those for chilled products and groceries, for example, are subject to different constraints

*The organisation and actual performance of the "**chilled**" supply chain result in two **specific constraints**:*

- *The need to keep the products at low temperatures involves the use of a costly **infrastructure with controlled temperature**,*
- *The **perishable** nature of chilled products favours a "tight flow" function.*

The « tight flow » function is characterised by very short order to delivery times (1 to 2 days on average), but can be as short as 2 to 3 hours in certain cases. Stock levels along this chain are measured at about 8 days (from the factory warehouse to the point of sale), that is 7 or 8 times less than for groceries.

DIAGNOSTICS :
STOCK LEVELS IN THE SUPPLY CHAIN

| Dry products : 60 days | Chilled products : 8 days |

Source : ECR France internal study 1998 /
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*The **key factors** for optimising the chain are therefore **different** depending on the **product category**, for instance :*

- *The grouping of flows by different partners today seems more widespread for chilled products, as is illustrated in the share of Multi-drop deliveries: 22% of deliveries are direct store deliveries, against 0.3% for "dry" goods*

- *On the other hand, the reduction of unsold goods, in the case promotions for example, appears even more critical for chilled goods than for groceries, because of expiry date constraints.*

Potential Gains

*Expected **profits** from the implementation of each solution have been described within the manual from which this summary was extracted.*
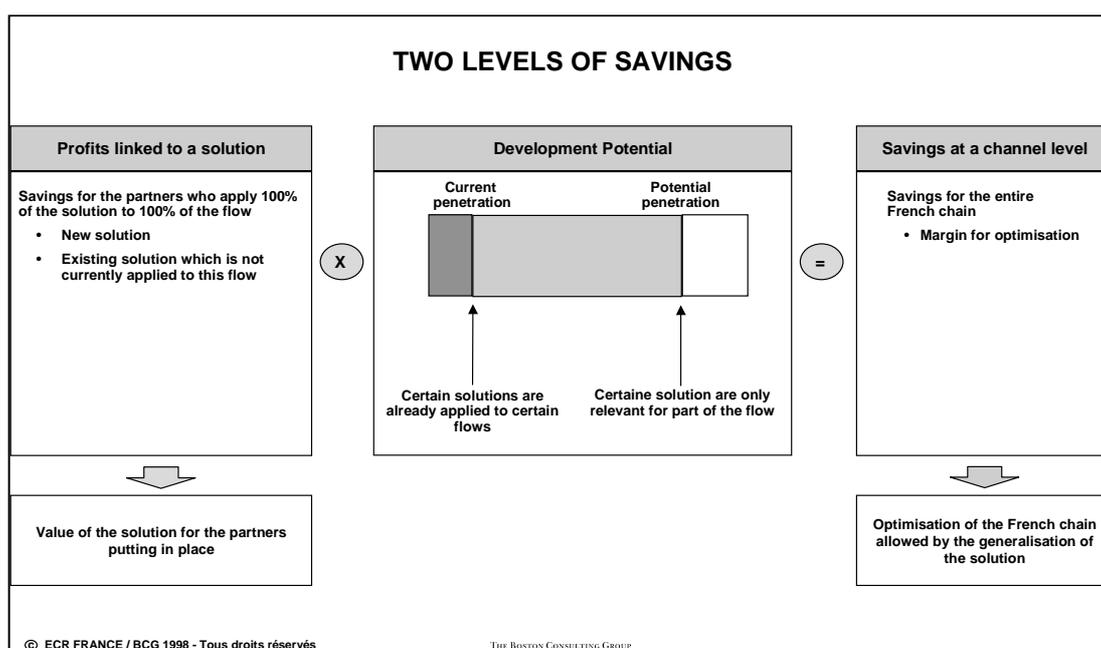*These profits are manifested in :*

- ***Savings** on one or more of the interface costs, for example: reduction in transport unit costs by grouping flows and optimising loading of trucks.*
- ***Increased turnover**, for instance: the joint producer and retailer sales forecasts at the time of a promotion allows for the reduction in the rate of line breaks and therefore an increase in turnover for both partners.*
- ***Quality service improvement** by the producer to the retailer, and the producer and retailer to the consumer. This is the case for solutions which allow increases in delivery frequency to the distribution centre, or for some product categories, improved freshness and quality on the shelves.*

*The measurements made by the working groups in the framework of this project relates solely to **expected cost reductions**. Sources of growth in revenue are described, without trying to evaluate them at this stage of the project.*

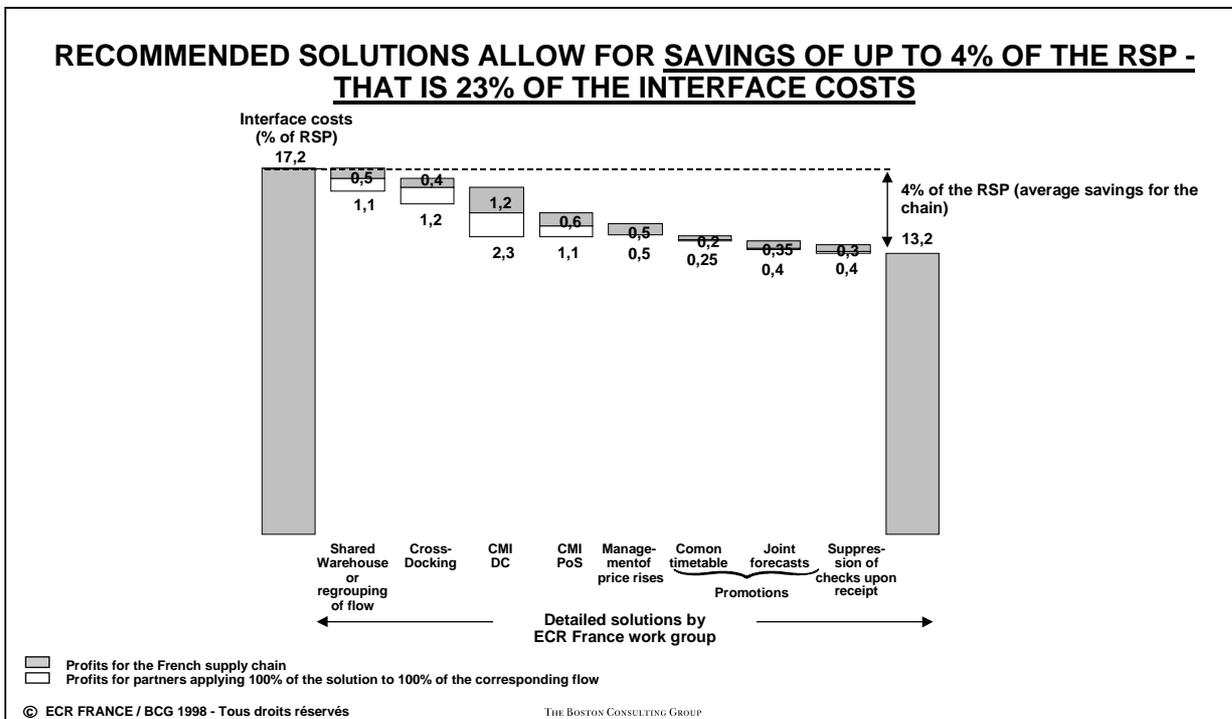*Two levels of potential gains** are therefore quantified:*

- ***Savings from successful and complete application of a new solution over the total flow** between a producer and retailer not currently making use of it.*

- ***Expected profits from a widely practicing this solution for the entire French FMCG chain**, taking into account its development potential. In this case, the assessment only integrates parts of volumes or situations where the solution is relevant, bearing in mind the actual degree of penetration of the various recommended solutions.*

TWO LEVELS OF SAVINGS

Profits linked to a solution	Development Potential	Savings at a channel level
Savings for the partners who apply 100% of the solution to 100% of the flow • New solution • Existing solution which is not currently applied to this flow	Current penetration / Potential penetration Certain solutions are already applied to certain flows / Certaine solution are only relevant for part of the flow	Savings for the entire French chain • Margin for optimisation
Value of the solution for the partners putting in place		Optimisation of the French chain allowed by the generalisation of the solution

*Savings have been estimated for **each solution**, based on the expected **impact on each interface cost**.*
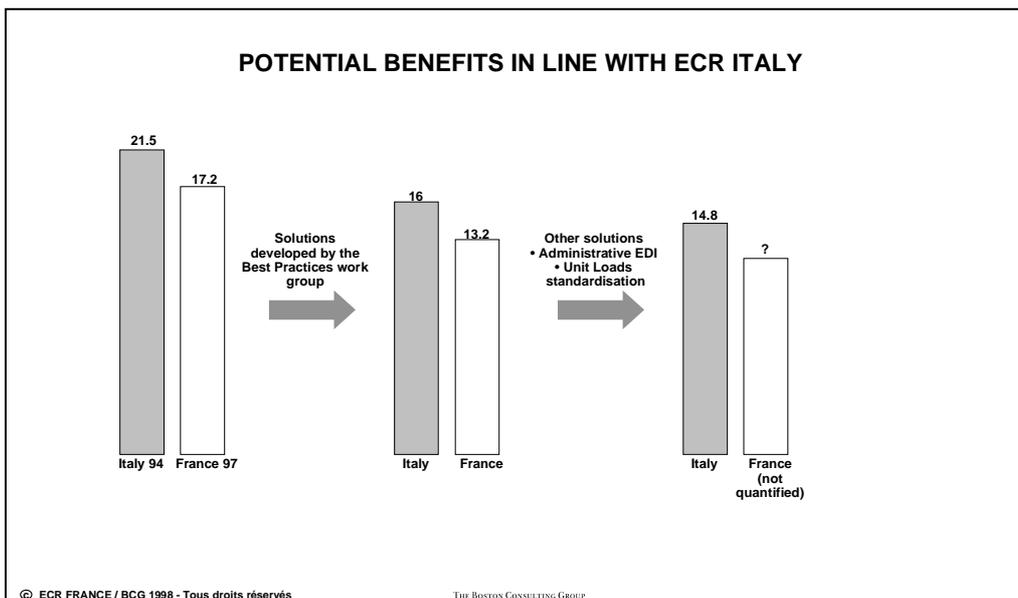
*These estimates were based on the interface cost evaluation and **are not directly transposable in the case of a particular business without adapting the base of the specific situation studied.***

*The expected **savings** from the optimisation of the **French FMCG chain** by the **application** of all of the recommended **solutions** are therefore estimated to be **about 4.0% of the RSP** based on an average cost bar.*

RECOMMENDED SOLUTIONS ALLOW FOR SAVINGS OF UP TO 4% OF THE RSP - THAT IS 23% OF THE INTERFACE COSTS

Interface costs
(% of RSP)
17,2

0,5
1,1

0,4
1,2

1,2
2,3

0,6
1,1

0,5
0,5

0,2
0,25

0,35
0,4

0,3
0,4

4% of the RSP (average savings for the chain)
13,2

Shared Warehouse or regrouping of flow — Cross-Docking — CMI DC — CMI PoS — Management of price rises — Comon timetable — Joint forecasts — Suppression of checks upon receipt

Promotions

Detailed solutions by ECR France work group

Profits for the French supply chain
Profits for partners applying 100% of the solution to 100% of the corresponding flow

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This accounts for 23% of total interface costs.

Despite having a situation which is relatively optimised in France, potential benefits are in line with those identified by ECR Italy.

POTENTIAL BENEFITS IN LINE WITH ECR ITALY

21.5   17.2

Solutions developed by the Best Practices work group

16   13.2

Other solutions
• Administrative EDI
• Unit Loads standardisation

14.8   ?

Italy 94   France 97   Italy   France   Italy   France (not quantified)

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Obtaining actual savings necessitates reaching a minimum **critical mass** for the *dissemination and application of the recommended solutions.*

*For one given solution, the **critical mass** acts as a threshold (minimum level) from which the expected **profits** of the solution **materialise.***
This threshold can be linked to a number of factors:

- *Some **investments** to be made profitable (IT tools, warehouse, ...)*
- *The **complexity of managing two methods in parallel** (order systems, reception control processes, ...): the "new" solution should concern a sufficient part of the operations to be able to have dedicated resources.*
- *The **probability of implementation**: for instance, best practices in the raising of tariffs must be applied either by all or by none of the players concerned.*

*Although particularly difficult to measure accurately, it appeared to the ECR France work groups that about half the savings identified from **optimising** the **French supply chain** depend largely upon reaching a **sufficient critical mass for a wide application of best practices.***

Following the first phase of the "Best Logistics Practices" project, ECR France members identified 12 subjects for pilot projects and 6 of these have already begun.

PILOT PROJECTS LAUNCHED BY PAR ECR FRANCE

Validation pilots (defined solutions)	In-depth pilots and testing innovative solutions	New solutions developed in work groups
1. Multi-pick	6. CRP at the distribution centre and at the Point of Sale	10. Optimisation of order-to-delivery process
2. Multi-drop	7. CRP at the Distribution Center from a multiproducer shared warehouse	11. Differentiating delivery frequencies
3. Multiproducer shared warehouse	8. Multi-pick and CRP at the Distribution Centre	12. Improvement of identification / labelling
4. Cross-docking at the Distribution Centre	9. Simplification of checks upon receipt	
5. Promotions : common timetable and joint forecasts		

░░ Current pilots   ⌐ ¬ New pilots to be launched

For further information contact : Patricia Braudo or Olivier Labasse ECR France,
8 Place d'Iéna, 75783 Paris Cedex 16,
Téléphone : +33 1 44.34.68.87 - Fax : +33 1 44.34.69.87
The Boston Consulting Group
4, rue d'Aguesseau 75008 Paris, Téléphone : +33 1 40.17.10.10