

## The SPIN DOCTORS.

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TODAY'S CONSUMER is beset with uncounted retail choices, many of them unpleasant. For the curmudgeonly shopper, namely me, significant acquisitions are frequently characterized by two predominant characteristics, conflict and remorse. The struggle begins with weaving my way through inescapable traffic, hunting for fugitive parking, and jostling crowds of similarly unmotivated consumers. After navigating the parking lot, I flag down an uninterested and uninformed salesperson and beg to press my money upon him. This time-consuming, exasperating exchange is frequently treated as an interruption to his very busy, and otherwise pleasant, day. For a country that depends on consumer spending to prop up two-thirds of its GDP, we have arranged to make it about as difficult as possible for the individual to find and purchase the things he wants. We seem to be very good at promoting acquisition, but a little sketchy on the details of fulfilling demand.

### MAIL ORDER MANNA!

Fulfillment! More than a word, it's a promise. The mantra of the direct marketer was developed as the antidote to the deterioration of the Great American Retail Experience. "Tell us what you need, and we will make sure we get it to you, at your convenience, guaranteed to work properly, and at a price you are happy to pay." What could possibly interfere with this model of customer-centric supply?

Expressions like "backorder," "out of stock," and "unavailable at the present time" come quickly to mind. In fact, "initial fill rate" has become an important "metric" that serious and professional merchandisers use to measure their operational success.

There is nothing more poisonous to the prospects of a direct marketer than failing to deliver the goods. This last step in the supply chain is critical to your customer's satisfaction, and therefore to your business's future. If you deliver high-quality products with attentive and helpful service, you can ease the price issue into the background of your sale. If you cannot respond to a direct request, price no longer matters. The sale, and the customer, are likely gone forever.

So the science of supply chain engineering (SCE) entered our language. SCE conjures up images of lab-coated professionals working through charts of suppliers, channels, and lead times; comparative costs of logistical solutions; cost-based accounting of storage expenses; and selling forecasts and fall-back positions.

### GRACE UNDER PRESSURE

The results of these efforts are tested by their exceptions. There are times when no amount of informed forecasting or systematic procurement can protect you from the reality of a stock-out.

More globally, it is interesting to know what seasoned veterans have invented to avoid the inevitable consequences of logistical failure. The chain is longer than you might guess. The big questions of what to sell, how to procure it, and in what style you should promote it all have a direct bearing on the number of times your business will successfully fill a complete order on the first try.

The solutions that follow are as varied and unique as the direct marketers who have created them. The details of the product offerings differ, but the enumerated strategies all have something to teach about the value of careful planning in the first place and creative crisis management in the second.

## SO HOW LEAN IS YOUR CHAIN?

The four accompanying anecdotes are excellent examples of clear thinking under pressure, the hallmark of creative and dedicated business people looking hard for the shortest length between two points. In each case, Mark (insourcing), Frank (partnering), Robert (outsourcing), and Dave (consolidation) applied a counterintuitive creativity to a challenge capable of immobilizing less stout hearts. However, the experience is not one any of our sample would wish to repeat unnecessarily. Having to deal with insufficient inventory is a symptom of an incomplete network of information.

What happens if you apply lean manufacturing principles of "customer pull" (demand) and the elimination of "waste" (overstocks, or stranded resources) to the relationship between a direct marketing enterprise and its customers? If you "extend" the supply chain concept past the boundaries of your distribution center and start to think about how to measure and react to customer demand more carefully in the first place, perhaps your initial fill rate could improve and reduce the number of times that you need to scramble to react to a stock-out. What this means to you is that the forecasting and control mechanisms built into the marketing, merchandising, and purchasing departments of your company have more to do with maintaining appropriate inventory than anything happening in your warehouse. It's not what you want to sell, it's what they want to buy.

Consult your customers when pondering stock levels of existing products or initial inventory levels of new offerings. The supply chain rightfully terminates in their hands, and when they tug on it, the smart marketer will know it and react to take advantage of the opportunity.

## DANCE WITH WHAT BRUNG YOU

Direct marketers have a wealth of customer contact opportunities built right into their operational model. Many of them have been used for years in other disguises. Others are new spins on old concepts, but together they offer you a running dialogue with your best source of forecasting accuracy. Some of these ideas are already being put to use; others are waiting for innovative people like you to figure out. Let's dream a little about the perfect direct marketing relationship.

## Questions and answers

Web purchases have increased every year, with the switch from phone ordering to e-commerce affecting every contact center in the country. People increasingly buy on the Web. This offers you the perfect opportunity to pose questions about your products that customers can answer at the point of sale. It is simple to design your purchasing protocol so that you can acquire important preference information with every transaction. This is nothing more than what the shopkeeper of yesterday used to do conversationally while bagging your order. People love to render their opinions. Don't hassle them, but ask the questions and track the answers.

## Affinity groupings

Reward your best customers with the opportunity to tell you what they wish you would carry or how they wish you might behave differently. Create a club of your top-performing customers and award them discounts and access to special sales, and listen, listen, listen to what they ask.

## Inserts

Every time purchasers receive a package from you, they get to open a present. The only difference between receiving an order versus receiving a gift is that the customer usually knows what is inside the box. Pay close attention to this opportunity. Work on the internal and external design of your container. Offer incentives to people who will take the time to respond.

## Gifts

Consider Dave's epiphany at Home Bistro. A person who is sent your product as a gift is in an especially good mood when being introduced to the product. This is not an experience that ever happens at the point of sale, because for these gift

customers, there is no point of sale. Do more than throw your catalog in the box - help them savor the glow of having received your product free of effort or expense. Offer them a first-time buyer's incentive to contact you. Drive them to your Web site and ask for their opinions on what they received and what they would like to try next. Ask them how they might improve the product.

## Follow-up

Predict the time it takes to consume or break in your product, then contact the buyers. Ask for their opinions, provide them incentives to buy again, keep the conversation going. Car dealers are getting very good at this.

## Personalize

In the near future, it will become easier for your customer to ask for assistance from a specific individual. Let your customer service people build relationships with your best customers. Figure out how your customer can ask for a specific representative.

## BY THE WAY

Toyota Motor Co. is on the verge of becoming the largest automotive manufacturer in the world. It is already the most profitable automaker, currently retaining earnings of more than twice its nearest competitor. In a January 2005 article from The Economist magazine, Jim Press of Toyota America is quoted as saying, "Toyota is a customer's company; Mrs. Jones is our customer; she is my boss. Everything is done to make Mrs. Jones's life better. We all work for Mrs. Jones." Sound familiar?

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## The Reluctant Manufacturer

### Classic Designs by Matthew Burak

#### Mark Desrochers, General Manager

Classic Designs by Matthew Burak (CDMB) is a ten-year-old catalog company specializing in turned hardwood components for the furniture builder. Established by Matthew after a career spent building custom furniture and millwork, the objective was to create a "clean" business enterprise out of buying in bulk high-value elements that most shops or individuals cannot afford to produce on their own. In the words of Mark Desrochers, the objective was clearly "not to make anything, except money."

At its current level of 22 employees, this rapidly growing and very successful enterprise has encountered the predictable conundrum of success - demand exceeding supply, or, perhaps more accurately, customer demand for particular shapes exceeding the supplier's ability to react to the immediate need for small numbers of SKUs. The result has been a rapid growth of backorders.

## MACHINATIONS

As detailed in Eliyahu Goldratt's The Goal trilogy, constraint resides not in the production of parts as much as in the set-up of the machine that makes the parts. The tools that produce the things that CDMB sells are large, expensive machine tools that require skilled effort to prepare for runs of a particular item. In order for a wood products factory to produce profitable output, it needs to make a large number of a few things, not a few of a large number of things. But CDMB is in the business of selling a significant number of a large variety of things in pine, cherry, and maple.

CDMB looked for solutions that would keep its customers satisfied while avoiding the investment and management distractions required to go into the manufacturing business. The firm looked for manufacturers to purchase, only to discover that due to the collapse of the American furniture business, there were no healthy companies left that it could afford to acquire.

It tried renegotiating its purchase commitments, and discovered that there was no penalty structure possible that could improve its suppliers' reaction time. It looked at buying inventory in even larger quantities, only to run into the financial reality of overstock.

So CDMB started investigating the cost of machinery and the availability of talent, and made a very interesting discovery. As Asia has drawn American furniture manufacturing capacity away to its cheaper labor force, it has left these shores littered with unused equipment and underemployed talent. The auction market is awash with beautiful machinery at irresistible prices and plenty of trained technicians itching to go back to work.

## MARK'S SOLUTION

So in order to solve the "supply side's" inability to provide what its customers want, when they want it, CDMB has decided to go into the manufacturing business. As it starts bringing tools and technicians into its St. Johnsbury, VT, headquarters, the jury remains out. However, Mark is quick to point out that the alternative was an increasingly frustrated clientele. The fiscal projections would appear to confirm that by purchasing enough industrial lathes and leaving them set up to produce the most frequently out-of-stock SKUs, CDMB should be able to avoid the set-up constraint that causes the erosion of mark-up in the broader industrial market.

## The Frantic Gardener

### Gardener's Supply Company

#### Frank Oliver, VP Merchandising

Frank Oliver likes to talk about product merchandising as the equivalent to calf roping at the rodeo. "You get yourself a healthy, frisky-looking calf (a product you think will really take off), put it in the pen (buy it and put an estimated sale quantity into inventory), climb astride your horse (do the creative placement in the catalog), shake out your lariat (train your customer service staff), and wait for the bell to go off (drop the book)."

Sometimes, the horse leaps out of the gate, and the calf doesn't move; it's actually found to be stiff and cold with its legs in the air. That creates one class of problem, leading to the glue factory of the "discontinued" spread in the next sale book.

But sometimes the calf launches itself into the ring, leaps the fence, tears through the crowd, and is last seen headed for the horizon in a cloud of dust. And guess what? Your modest inventory is gone too.

Then what? Well, the answer depends upon the product. Is it available elsewhere, like in your competitor's catalogue? Is it bigger than a breadbox, heavier than an anvil, and takes six weeks to arrive by ship from the Pacific Rim? All of these questions help shape the buyer's attempt to manage the crisis, and the level of his anxiety. However, in Frank's experience, it is the little things that most frequently disrupt the orderly flow of products as they journey from the wholesaler to the packing bench in your distribution center.

## GONE MISSING

What frequently happens to merchandisers is the absence of a critical part in an otherwise complete shipment: connectors for that kit that "requires some assembly," optional handles for that plastic garden tote, or the little wheels for that fern stand designed to support up to 50 pounds of pot and soil. Inevitably, the missing piece renders the product useless to your customer. A peek at the Web site, [www.gardeners.com](http://www.gardeners.com), will show you how many little parts Frank is talking about.

When you have to place that dreaded first call to a supplier about the missing merchandise, the standard response is usually, "Gee, that's never happened to us before," followed closely by, "I'm already losing money on this deal, surely you don't expect me to absorb expedited shipping expenses," followed almost immediately by "Besides, if you had placed your order sooner, this never would have happened, it's your fault!" The exceptions to this predictable diatribe are memorable.

One example from early in Frank's career figures prominently in his memory. He had developed a first-time relationship with a German auto parts wholesaler for two items: a stick-on thermometer and a dashboard clock. The clocks were moving as expected, but the thermometers were screaming off the shelf. So Frank sent a Telex (this was some time ago, after all) saying, "I've got good news and bad news. The good news is your product is selling beyond all expectations. The bad news is I need 2,500 more of them by the end of the week or we will have to pull the offering."

A nervous night went by while Frank waited for the predictable harangue, only to receive a Telex that said, "Here we have only good news! Your 2,500 thermometers were shipped on a Lufthansa passenger jet to New York this morning, you should have them tomorrow afternoon!"

## FRANK'S SOLUTION

Within the next year, Frank had placed more than \$1 million in orders with that source and was never disappointed by its performance. It seems that sometimes, a moment of vulnerability allows a trading partner to step up to the table with a solution that exceeds your expectations, and make a start on a beautiful relationship. The line he now uses on all of his less cooperative suppliers is, "Don't give me excuses, I want Lufthansa flight numbers!"

## The Show Must Go On

Production Advantage Inc.

Robert Kenyon, Operations Supervisor

Production Advantage Inc. provides theatrical gear and products to schools, theaters, and traveling shows. Its motto states, "What you need, when you need it, at a reasonable price." The firm specializes in rapid reaction, frequently shipping an order at 5:45 p.m. that was received at 5:30. The customer service representatives are grips, roadies, and designers of lighting; they have to be to understand the personalities and professional language of their frequently frantic callers. This is a specialty business catering to a demanding customer base that insists upon prompt and accurate fulfillment. There is no plan B, get it?

## YES, WE'VE GOT THAT IN STOCK

Robert Kenyon is an oasis of cool and fastidious organization in a gale of "gottahaveitnow" urgency. He has created a warehouse of product that is convenient, tidy, and compact. He almost never has to tell a customer that he is out of something. Over the last few years, Robert has weaned the company from its earlier days as a drop-shipper and now makes sure that it can lay hands on most everything sold within the walls of the warehouse. Hence the ability to turn around an order in an hour. But that doesn't mean that he doesn't have challenges.

One of Robert's most interesting products is a selection of heavy electrical cable with particular terminations gracing each end. Used primarily for stage lighting, they resemble standard household extension cords on steroids. These are consistent sellers, and he needs to see a few of every kind, in multiple lengths, on each of the custom-built pick locations he has so meticulously built. The margin on this value-added product is substantial, but the manufacture needs to be conducted professionally.

When I first met Production Advantage, the staff was manufacturing these cords as a cottage industry. The company trained them on the job, and then paid them by the piece for finished goods as they were returned to stock. This worked well when demand was light, but it wasn't long before stock was running low.

So Robert began scouring the vender market for an "outsource" manufacturer. His first attempt was with a union electrical contractor, but soon enough price commitments and production output began to wobble. A second round of research uncovered an electronics "job shop" that has taken over the assignment with great attention to detail. It provides replenishment with scheduled releases of finished products and has actually reduced overall inventory in the warehouse while increasing the reliability of available SKUs.

## ROBERT'S SOLUTION

In this case, Robert had to outsource a product to a third party against his own policies of reducing drop-shipping, and despite his disappointment at the result of his first attempt. He is delighted with the current status of this project, but was in no way certain of when, or whether, he would arrive at this happy result. If you decide to move against the current, keep swimming for a while.

The Chef in Your Freezer

Home Bistro Foods Inc.

David Thompson, President & CEO

Home Bistro Foods Inc. is a rapidly growing, five-year-old company that offers elegantly prepared entree meals to the busy gourmand in the comfort of his or (mostly) her own home. The firm prepares and freezes the product, and divides it into portion-sized plastic pouches, which are then shipped in insulated coolers containing dry ice. The Web site, [www.homebistro.com](http://www.homebistro.com), creates a Pavlovian response with sumptuous photography of elegant food at prices competitive with your local upscale restaurant. Best of all, there is no tipping required!

With 90 SKUs and a full schedule of production in its Plattsburgh, NY, kitchens, keeping the right levels of inventory to match demand is an ongoing ballet of demanding chefs, temperamental perishables, and sometimes unpredictable consumer interests.

But Home Bistro does have the advantage of making everything it ships. It was not always thus, however.

## WE'VE BEEN SLAMMED

In the early days of the Bistro, a contract provider conducted production three states away from headquarters. Control was inconsistent, to say the least, and during one memorable Christmas season, David remembers being out of 62.5% of his SKUs. His first reaction was to panic, which he did for a good twenty minutes.

Then he realized that the bulk of this holiday demand was in the form of gifts to friends and relatives of the buyer. Dave reasoned that the recipient of a gift would not likely be disappointed that the salmon was grilled with chili hollandaise sauce rather than poached in sweet red pepper sauce - that, in fact, she would never know that her delicious meal was in any way different from what had been ordered. Doctors bury their mistakes; Dave opted to have his eaten by grateful customers.

## DAVE'S SOLUTION

Since those days, Dave's forecasting methods have improved to the point where stock-outs are rare. Furthermore, Home Bistro has actually come home, and the company now make its product at the same address where it makes decisions. Consolidation and better forecasting have prepared it for the next big leap forward, and protected it from having to apologize for product that is "temporarily out of stock."

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