TB&Co
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TOM BROWN & COMPANY

CONSULTANTS TO MANAGEMENT

Strategies and Applied Sciences for Better Consumer Goods Marketing and Distribution, Worldwide.

Member of:

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TB&Co - Products and Services:

TB&Co - Special Services	Select this for an overview of TB&Co's service offerings with unique expertise.
or...	Make a specific selection from the table below based on your Industry Sector and Functional Area: **P** = Products **S** = Services

Sector/Area	Management & Administration		Sales & Marketing		Operations		Inventory & Procurement	
Wholesaler	P	S	P	S	P	S	P	S
Retailer	P	S	P	S	P	S	P	S
Manufacturer	P	S	P	S	P	S	P	S
Distributor	P	S	P	S	P	S	P	S

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TB&Co - Recent Mailings

- Click on any mailing title to view (or print) the complete information.
- Contact us with your questions or comments: email marketing@tombrownco.com or call (203)/762-9772

Industry Sector	Mailing Title
Retail Merchandising and Operations	• Test your Management Process Against Best Practices • Test your Operations versus these Execution Edge Practices • Introducing the Retail Leak Detector
Distribution Center Level Buying and Reordering	• Test your Buying, Reordering against Best Practices • Tom Brown & Co: We Are the Food Industry Buying System Specialists
Warehouse Operations and Layout	• Test your Warehouse against this Checklist • Test your Warehouse against this Checklist (#2)
Wholesale Profitability	• Big Opportunities to Improve Wholesaler Profits (Letter) • Tom Brown & Co: We Are the Wholesale Profit Leak Detectors • For Efficiency, Try these Services for Wholesale Divisions

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The Tunis Report

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Commentary on Europe and Africa
Visit to AIDA Conference in Tunisia

J. Tom Brown, President, Tom Brown & Company
12-Jun-2002

We were invited to attend the AIDA Conference held this June 10-11 in Tunisia. This event created much food for thought.

1. AIDA is an international food distribution trade association with a low profile. It has 15000 company members around the world...of suppliers, distributors and retailers. US retailers who are NGA members may not know that they are automatic AIDA members.

2. The conference was the annual meeting, this year held in Tunis. Approximately 100 delegates and some wives attended. Most delegates were from Europe and the second greatest number were from Tunisia itself. There was one American (me) and one Brazilian. All presentations were in English or French with interpretation to the other language as well..

3. The topics of the conference were varied, interesting and mostly explored in depth.

   E-Business reported carefully on the US and Europe. Home delivery was included, where TESCO of the UK is way ahead. The conclusion was that everybody will do e-business as an extension of their main business to expand their marketing reach. Electronic data sharing was also covered, perhaps naively, concluding that it is easy and very important in all aspects. I offered the view that electronic data sharing is not easy and of mixed net benefit after costs depending on the data shared; that product attributes and forecasts were most important (with the latter being very difficult), orders and ship notices of medium importance, and invoices of least importance.

   Security in Europe was treated comprehensively. The list of concerns ranged from food safety to robbery and terrorism. Suggested policies and training for supermarkets was covered in some detail, and was well received. One had the feeling that the store people were being treated as key people in the retail enterprise.

   Ethics in Business was covered extensively. True to Europe's maturity, the main speakers gave extensive historical perspectives going back to feudal times. The list of ethical concerns was substantial, ranging from assurance of food safety, fair treatment of suppliers, concern for adequate pay and well being for employees, concern for the environment to management ethics and accounting ethics. Oddly for Americans seeing these problems, management ethics and accounting ethics were not emphasized very much! Supporting the notion that a retailer can be ethical and profitable, Migros (Swiss) and Intermarche (French) gave presentations supporting their ethical activities.

   Data Sharing was covered lightly, from the perspective of suppliers making business review presentations, which are commonplace in the US.

   European Private label was addressed somewhat comprehensively, with the following main points: Private label in Europe reaches 45% of total in many categories, I think greater than in the US. Private label growth is seen to be an outgrowth of environmental and food safety concerns, such that the consumers think that Retailers are better able to deal with guaranteeing environmental safety and food safety than branded suppliers.

   Discussion was excellent during the presentations and it was never cut off by the moderators.

4. Discussion with the participants was equally rewarding.

   There was an astonishing discussion of the treatment given suppliers in France, the costs that they incur and the financial health of the suppliers. My source, a small France-based supplier of packaged prepared foods and hors-d'oeuvres, said that suppliers are treated unmercifully in a way that is detrimental to meeting consumers' needs. I thought it rougher and more costly for suppliers than what I hear in the US.

   The Intermarche people spoke of their company culture and way of operating, whereby all the officers are store

owners and spend 1 -2 days per week performing corporate duties.

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5. Tunisia was not on the program, per se, but deserves discussion.

   There was a display of its export products, including olive oil, dates, wine, ceramics for plumbing and dishes, carpets, fabric, fresh fruit and produce, all of high quality. My sense was that it is all very cost competitive. They do not have an organized way to get produce out to the US as does Holland with tomatoes.

   Tunis and Carthage were very clean, well lit at night and well maintained. Conditions for life looked pretty good.

   Tunisia has a high quality free university education system.

   Tunisia is a progressive country of mostly Islamic people. Women are in many public contact jobs and generally dress as in Western Europe and the US. The Internet is widely available and broad band is being rolled out. Alcohol is widely available and some locals use it.

   There are seven major supermarket chains to serve the 9 million inhabitants. Carrefour has newly arrived in Europe with at least one hypermarket.

6. AIDA, the sponsoring association, ran a program that was interesting and useful, with industry speakers rather than celebrity speakers, and lots of opportunity for good discussion. More people from the US and North America should go to this meeting!

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TB&Co - Industry Issues

(Make a selection based on your Industry Sector and Organization Type)

Industry Sector	Organization Type
Retailer	- Single Store - Chain using a Wholesaler - Chain using a Single Warehouse - Chain using Multiple Warehouses
Wholesaler	- Single Warehouse - Multiple Warehouses
Manufacturer	- Single Plant - Multiple Plants

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TB&Co - Studies, Articles and Presentations:

- Click on the item name to see (or print) the full version.
- Contact us with your questions or comments: email marketing@tombrownco.com or call (203)/762-9772

Item	Abstract
Recent Buying Study Conclusions	Tom Brown & Company recently completed a study of industry buying practices and opportunities. In a recent mailing, we offered our clients the opportunity to request a full explanation of this study. Click here for the full explanation.
Seven Practices of Successful Distribution	It is clear that there are two sides to the question "What should the rules be for getting product through the distribution system in the best way?" But maybe there is a best way that most of us could agree on. This article presents seven best practices for consideration.
Studies in Management Information	This paper explains the *Management Information Network* concept, where all members of the management team have on-line, integrated information at summary levels and supporting information appropriate to each team member's job responsibilities. The concept calls for simultaneous team review and action and is explained for branch and headquarters environments as well as for stand-alone businesses.
A Model for Consumer Marketing Support	There is a strong movement to reward your best customers and to withhold certain programs and promotions from other customers. The current situation is that most programs reward customers that buy the most, irrespective of profit. This article proposes that we reward the most profitable customers, and develops a methodology for measuring customer profit.
Where do the Buyers Report?	There is an old question concerning whether the buyers report to the merchandising department or to the warehouse. In the old days, it was usually decided that the buyers report to merchandising. Now, with new technology, more promotion issues and more supply chain issues, this article argues for an independent service department, whose job is to make the correct sourcing and ordering decisions from the data given by merchandising and logistics.
The Reality of Supplier-Managed Replenishment	Supplier-managed replenishment, where the supplier decides what to ship to its customers, has surfaced as an answer to the grocery industry supply problems. This article explains why the supplier-managed replenishment is a better solution for club stores than grocers. It then explores very practical grounds for supplier collaboration and information exchange with distributors and retailers.
The Damage Issue	From its project work, Tom Brown & Company has learned that damage costs are a growing issue throughout the Grocery Industry, and that many suppliers are being confronted by Distributors and Retailers with demands for higher payments.
Design the Perfect Wholesaler	It is beginning to be clear what the perfect wholesaler might be! If you are a retailer, here is what to look for. If you are a wholesaler, here is what to try and be!
The Reality of Adapting Your Warehouse to the Future	With current industry emphasis on selling rather than buying, management has been lulled into thinking that the warehouse is being de-emphasized and needs little attention. This is far from the truth! Adapting your Warehouse to the Future discusses the importance of changing your warehouse as the business changes and makes some practical suggestions.
The Systems Opportunity	The Systems Opportunity discusses the state of systems in the food distribution and retailing industry and offers some insight as to the opportunities.
More to arrive shortly (check back soon!)	

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TB&Co - Company Profile:

- Management consulting firm specializing in the Food Industry and Consumer Goods.
- Successor company to Stevenson, Jordan and Harrison (founded early 1900's) and Case and Company (founded 1962), the latter where Tom Brown and colleagues developed and applied many new management methods to the Food Industry.
- Staff trained in Marketing, Engineering, Operations Research, Information Technology, generally with industry employment background.
- Analyzes and solves cost and pricing issues for products and services bought or sold.
- Rationalizes the logistics and goods handling of an organization.
- Develops organization and information flows to maximize organization efficiencies - especially across functional lines.
- Identifies strategic and operating issues - internally and externally.
- Develops creative, intellectually correct and practical solutions to strategic and operating issues.
- Directs implementation from human resources, engineering design, information systems, customer and supplier relations, logistics and operational views - involving all functional areas of the organization.
- A growing firm of professionals with offices in Connecticut, Virginia, Chicago and California.

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TB&Co - Accomplishments: (Highlights)

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FORWARD BUYING - Developed and introduced basic interest charge/cube charge formula used by many food companies today. Used formula to develop forward buy profits at rate of 3-5% of sales in many companies.

TURN BUYING - Developed planning methodology and "Continuous Review" system that has reduced turn inventories by 15-20% in at least six companies.

INVENTORY - Developed practical method for evaluating inventory levels which replaces inventory turns, and is effective in an environment of heavy forward buying.

DIRECT PROFIT and ACTIVITY BASED COSTING - Developed and applied basic models for Direct Product Profit now used by most of the food industry. Developed strategy and software for using DPP and ABC information to increase profits.

RETAIL PRICING - Developed and tested method that has increased sales by 5% and margin by 1% of sales.

RETAIL EVALUATION - Developed scorecard evaluation methodology to evaluate consumer reaction, competition, category management, pricing, customer service and expense control.

RETAIL SPACE - Developed program to allocate retail shelf space to achieve maximum Direct Product Profit per square foot of display space and minimum handling costs for a specified level of customer service.

STORE LABOR - Developed and installed system that has reduced stocking labor by 10-15% and increased service level in four companies.

FRONT END/SERVICE DEPARTMENT - Developed and installed front end and service department (e.g., deli) scheduling program using queueing models with resulting increased customer service and 5-10% lower labor costs in three companies.

DISTRIBUTION - Developed method of using satellite warehouses for low cost per cube merchandise, and method to justify stocking strategy by supplier for each warehouse.

- Developed concepts to increase capacity of storage in building by 1/3 or more and reduce handling costs by 1/3 to 1/2.
- Designed and installed planning and standards approach to labor scheduling and control that has reduced labor costs by 1/3.
- Developed distribution system improvements for perishable products.
- Developed concept of incremental mechanization for highest ROI.

ORGANIZATION - Developed new organization concepts for buying departments and MIS departments to maximize employee effectiveness and responsiveness to business problems.

MANAGEMENT INFORMATION - Developed a comprehensive plan of required management information to manage the organization effectively. Work done in both supplier/manufacturer and retailer/distributor environments.

- Developed concept of decentralized information.
- Developed concept of paperless reporting with a 'client' workstation.
- Developed criteria to justify when to develop internally versus purchase of a "package".

MANUFACTURING OPERATIONS - Developed comprehensive view of plant efficiencies in line crewing, production scheduling, methods and use of automation, including robots, for meat packing and prepared foods.

FINISHED GOODS - Developed method to minimize finished goods inventory by maximizing direct loading of mixed orders from production lines.

AUTOMATION - Developed method for justifying extensive warehouse automation in food plant on a product by product basis.

SALES - Developed and installed system for sales force work load planning based on specific territory objectives and geography.

MARKETING - Developed and installed method for tailoring cost justified promotions by customer account.

MANAGEMENT - Installed programs of annual planning, cost justified product development, profit justified account promotion planning, economic lot sizes for production and for purchased materials. Reorganized company and accomplished turnaround.

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TB&Co - Personnel:

J. Tom Brown, *President*

- Degrees in Industrial Engineering and Operations Research from Cornell and Stanford Universities
- Background with IBM Corporation in Systems Engineering and Applications Development
- Experience with Procter and Gamble in food and detergent packaging
- 20 years experience in food industry consulting covering Retail, Warehouse and Headquarters
- Developer of forward buying models and Direct Product Profit models.

Mark J. Schukas, *Vice President*

- Masters Degree in Marketing
- Former Sales Representative, Kraft/General Foods
- Former Perishables Manager Dominicks
- Background, expertise in Statistical Analysis
- 10 years consulting experience.

Nicholas W. Kutsch, *Vice President*

- Degrees in Industrial Engineering and Business Administration from Virginia Tech, William & Mary
- Five Years Consulting Experience
- Specialty in Sourcing and Stocking Strategies for manufacturers and distributors
- Developer of Sourcing Simulator
- Industrial Sales experience.

Ronald A. Dupont, *Consultant*

- Degrees in Business and Computer Science
- Engineering Design background
- Co-developer of Procurement System
- 10 years Consulting Experience.

Craig E. Worrell, *Consultant*

- Trained in computer science
- Co-developer of Procurement System
- Developer of Labor Scheduling System
- 10 years consulting experience.

Ernest E. Nunes, *Consultant*

- Advanced Degree in Computer Science
- Developer of ABC Profit System
- Developer of paperless reporting
- 8 years consulting experience.

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TB&Co - Clients: (partial listing)

DISTRIBUTORS:	MANUFACTURERS:
• Associated Grocers of Maine • Associated Grocers (Seattle) • Ahold • Albertsons • Battard • Brunos • CADA (Venezuela) • Central Grocers • Certified Grocers (California) • Certified Grocers (Midwest) • Delhaize (Belgium) • D&S/Almac (Chile) • Grand Union • Jewel • King Soopers • Laurel Grocery • Marsh Supermarkets • Nash-Finch • Oshawa • Pueblo • Seaway Foodtown • Sultan Center • Systeme U (France) • Vons • Winn-Dixie	• American Can • Brown and Williamson Tobacco • Beatrice/Hunt-Wesson • Castleberry Foods • Adolph Coors • Family Circle Magazine • Food Machinery Corporation • General Foods • Granny Goose Foods • International Paper • Iowa Beef Processors • Kraft Dairy Group • Lever Brothers • Marcal Paper Mills • Miller Brewing • Procter and Gamble • Ralston Purina Company • R. J. Reynolds Tobacco • St. Regis Paper • Sunkist Growers • Time, Inc. • Topco Associates • Wilson Foods

OTHERS:
• National Grocers Association • National Livestock and Meat Board • Texas A&M University • William & Mary College

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 Call us at 203/762-9772

TB&Co - Contact Information:

Phone:	203/762-9772 (main office)
Fax:	203/761-8671
Address:	Tom Brown & Company P.O. Box 431 Wilton, CT 06897
Email:	marketing@tombrownco.com

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TB&Co - Special Services:

- TB&Co services that present unique offerings to the food and consumer goods industry - with exceptional levels of expertise.

Special Service	Overview
Strategic Systems Consultation	TB&Co offers assessment of information needs, solution determination, evaluation of packaged software alternatives, and full implementation support.
Buying and Inventory Management Audit	This audit usually identifies 10 to 100% excessive inventory levels and 20 to 50% excessive warehouse handling costs and offers recommendations on how to minimize the excess costs.
Warehouse Audit	TB&Co has found that nearly all warehouses can be made workable *and* efficient by methods and slotting changes, and by not putting too much in the warehouse.
Store Evaluation	TB&Co's experience has shown that many stores are underperforming in sales and profit by 50 to 100%!
Perishables Audit	Today's realities mandate tight control over produce (and meat) at warehouse and retail. We hear complaints from warehouse and retail about the other, but in reality both can do a better job.

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Wholesaler - Management & Administration

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Buying System
- TB&C - Item and Store Profit System for Wholesalers
- TB&C - Product Sourcing Simulator

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Wholesaler - Management & Administration

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TB&Co Services

DISTRIBUTION DIAGNOSTIC STUDY (1) - This study develops basic efficiency measurements by functional area in your distribution system, including warehousing, transportation and buying. Each aspect or operation is assessed to determine if opportunities exist for improvement. The study prioritizes between improving efficiency with present methods and from significantly changing methods. Study can be limited to a single functional area. See our special service *warehouse audit* for more information.

DISTRIBUTION STRATEGY (2) - Most companies have not optimized their distribution. At least the following options should be considered: central warehouse, regional warehouse, cross-dock, and store-delivered. Then we optimize storage capacity, handling capacity and methods for projected levels of business. Finally, delivery schedules must optimize miles and hours used. Forecast sales growth of all categories by region and in physical (cases and cube) units. Determine optimum strategy to serve regions for each category. Consider full line warehouse(s), satellite warehouses, cross-dock operations, local DSD consolidation and more DSD.

DISTRIBUTION CAPACITY PLANNING STUDY (3) - Forecast sales growth, by region, of categories served by warehouse. Develop inventory needs, including forward buying; plan organization of the warehouse to meet inventory needs and/or maximize storage capacity. Optimum types of slots and slot heights are considered in all planning.

WAREHOUSE LOCATION STUDY (4) - Determine where to locate a warehouse to minimize all costs, including operating, delivery, inbound transportation costs and purchase costs.

WAREHOUSE METHODS (5) - Develop optimum equipment, methods, and information/data recording procedures for receiving, put away, selection, loading, sanitation and maintenance. Mechanization and/or flow racking considered as appropriate.

WAREHOUSE LAYOUT (6) - Develop an optimum layout that permits good load building and minimum travel, yet presents the product to the customer in a logical sequence. Layouts can be developed for two travel patterns to serve small and large stores.

WAREHOUSE SLOTTING (7) - Initial assignment of items to exact slot address and subsequent evaluation of need for change. Proprietary software program makes optimum slot assignments by item, evaluates all palletization for reasonableness and summarizes requirements by aisle to facilitate slotting.

DISTRIBUTION PLANNING STANDARDS DEVELOPMENT (8) - An inexpensive study to develop standards for workload balancing and crew sizing. Not designed for confronting the individual worker, yet designed to achieve 95+% of the efficiency gain from full standards. Uses industry standard data and selective time studies.

DELIVERY SCHEDULING STRATEGY (9) - Designed to determine how to improve fullness of trucks and save trucking miles and hours. Considers the use of delivery waves, routing, load balancing and flexible multiple stop programs.

BUSINESS METHODS (10) - This type of study develops the costs of doing business by activity and by reason. We especially identify handling costs by item and by operation and customer-caused costs for order filling and delivery. We recommend new methods and policies; we design and/or develop prototype systems.

DISTRIBUTION COST STANDARDS AND VARIANCE ANALYSIS (11) - In addition to cost standards for item handling, we now have cost standards for inventory levels, product cost and delivery cost. We have developed a variance analysis system that identifies and assigns financial responsibility to buying, warehousing and transportation for any variances. With our program we can see where one part of the organization overperforms and another underperforms. We also can identify situations where the company is meeting productivity standards for its people yet is still inefficient.

ORGANIZATION STRATEGY (19) - Most retail organizations have management people who are spread very thinly. The old ways of managing (manager discovers problem and corrects it, etc.) are not optimal. We plan the organization for more responsibility at the lower level, more training so all know how to do the job, time for new problems and "new business", and better measuring.

ADMINISTRATIVE STRATEGY (20) - Much effort is in keying data, checking by hand, matching, validating deductions and chargebacks and transporting and filing paper. Too little work is done on tight control of internal shrink, monitoring of training. We plan improved systems and procedures for internal monitoring, reducing or re-allocating the administrative workforce.

SYSTEMS STRATEGY (21) - Systems are the key to the future. The centralized 'main frame' computer is now considered obsolete.

There are decentralized systems approaches at sharply different costs; there are many applications needs. We determine how much to invest and where. See our special service system strategy and implementation.

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Wholesaler - Sales and Marketing

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Customer Service Scheduling System
- TB&C - Item and Store Profit System for Wholesalers
- TB&C - Space Allocation System

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Wholesaler - Sales and Marketing

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TB&Co Services

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STUDY OF CUSTOMER SERVICES (13) - We survey customers' needs and wholesaler offerings to see if services offered are complete, create value and are competitively priced. We especially believe that customer ordering assistance is especially productive for a wholesaler to offer. We can assist in setting up and pricing needed services, including supplying prototype software.

CUSTOMER PROBLEM ANALYSIS (14) - We involve ourselves when retail customers complain that their business is not profitable due to pricing, merchandise or services of the wholesaler. We are able to find the real problem and show both sides how to correct it.

PRICING TO CUSTOMERS FOR WHOLESALER SERVICES (14a) - We have developed a pricing concept that fairly charges the retailer for the services it wants and gives an incentive for the retailer to reduce the wholesaler's costs. We can audit present pricing and adapt our concepts to the business.

CATEGORY STRATEGY (15) - A category should be assigned inventory, space, and a promotional budget; it should develop a certain profit contribution and have a certain share of the market. We develop a program of measuring these key variables, researching opportunities and re-allocating resources between categories.

PROMOTIONAL STRATEGY (16) - Promotional methods utilized and extent of utilization must be continually be re-examined, considering cost and effectiveness. The promotional zones in a store have great potential value, but are misused or underused. We establish a program where these zones can be measured as profit centers and assigned to items and programs that maximize profits.

SUPPLIER STRATEGY (18) - Given supplier profitability and available programs, we establish a system for discovering, developing and using programs with suppliers to maximize profit. There is too little negotiating on programs for profitability. We help resolve: should we use a supplier EDLP, 'just in time' delivery and should the supplier make replenishment decisions?

MERCHANDISING PROBLEM DIAGNOSIS (22) - We frequently help our clients find problems in assortment, ordering, handling methods, planning of displays, planning of labor that impact the availability of product and the quality of customer service. We do this for perishables and dry. See also our special service *auditing perishables*.

PROMOTIONAL FORECASTING AND PLANNING (23) - We offer methods of promotional forecasting and planning that deal with the sensitivity of the product to promotion and its effect on other items in the store, increasing the accuracy of projections. The methodology has been shown to sharply increase promotional profit per sq. ft.

OPTIMUM BUYING AND REORDERING (26) - We offer a service of teaching buyers new techniques for buying at the lowest landed cost. See our special service *buying audit.*

COMPETITIVE PRICING (27) - We offer methodology to recommend the correct retail price considering competition, the uniqueness of the product and the company profit objectives. Our research shows how to price items and categories that are less price sensitive.

SUPPLIER AND CATEGORY MANAGEMENT (28) - We believe that both the supplier and category must be continually monitored for profitability and share of market. We offer a decision making framework and data base design to do this.

RETAIL SPACE ALLOCATION (29) - Many companies have too much space being assigned to items, seriously impacting sales per ft2, and preventing the store from carrying proper variety. We offer the service of analyzing space allocation of a store or prototype store and recommending allocation, shelf depths, shelf widths and shelf heights. We have methodologies that can simultaneously deal with optimizing assortment and frequency of delivery. These methodologies are suitable for ongoing use by individualo stores. See our TB&Co - Space Allocation System product.

STORE LAYOUT (30) - We see many examples where the store layout creates problems of stocking and selling. We offer assistance at two levels: analysis of the customer traffic, selling problems and stocking problems of a given layout; development of

an optimum selling floor and backroom layout. We develop a complete store layout including selling, preparation and storage areas to meet the criteria developed in store planning. We plan all fixturing for efficient handling, space utilization and productivity, as well as optimum merchandising.

STORE PROBLEM DIAGNOSIS (31) - We frequently help clients find problems in ordering, handling methods, stocking of shelves and displays and customer service. We do this for both perishables and dry products. See our special service *store evaluation*.

RETAIL METHODS (32) - We develop and test standardized methods of preparation, handling and stocking that are both efficient and offer correct product appearance. On-floor preparation of produce and rear-feed refrigerated and frozen product are examples.

STORE FRONT-END SCHEDULING (33) - We are involved in organization of the checkout function to provide good but efficient service. We deal with the mix of express checker, regular checker and bagger and the best way of adjusting to customer demand. We have proprietary, stand-alone software for scheduling to a desired level of service.

RETAIL LABOR CONTROL (34) - We have a unique philosophy in labor control of capturing the exact product mix by store and having handling factors by store depending on the distances and equipment. We can develop fully accurate labor requirements on a forecast or after the fact earned basis

INTELLIGENT STORE ORDERING (35) - In many companies, over-ordering and backroom inventory are the greatest causes of inefficiency. We offer display methods, ordering methods and training to virtually eliminate back room inventory. We also have proprietary software to automatically apply and deplete backroom inventory before ordering from the warehouse.

RETAIL SITE ANALYSIS (39) - We study retail sites to determine the market size, composition, and potential for constructing a retail unit to serve a given market. We consider competition by product category, demographics, available selling space. We recommend the overall size of selling space and its allocation to retail departments. We project sales by department and product category.

STORE PLANNING (40) - We execute the detailed pre-design planning, including merchandise assortment planning, space planning and refinement of projections by department and product category. We consider competitive offerings and pricing by product category to optimize profit per ft2.

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Wholesaler - Operations

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Warehouse Planning Program
- TB&C - Item and Store Profit System for Wholesalers

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Wholesaler - Operations

TB&Co Services

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Wholesaler - Inventory & Procurement

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Buying System
- TB&C - Product Sourcing Simulator

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Wholesaler - Inventory & Procurement

TB&Co Services

BUYING AND INVENTORY MANAGEMENT (12) - We audit all aspects of buying and inventory management, including assortments, purchase brackets, lead times, item order quantities, vendor and item inventory levels, control of and return on forward buying and control of promotional inventory. We audit and correct systems problems as necessary, including forecasting, reordering and performance control. We have new methods of forecasting by customer group, including promotional and seasonal forecasting.

CATEGORY STRATEGY (15) - A category should be assigned inventory, space, and a promotional budget; it should develop a certain profit contribution and have a certain share of the market. We develop a program of measuring these key variables, researching opportunities and re-allocating resources between categories.

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Retailer - Management & Administration

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Retail Labor Planning System
- TB&C - Item and Store Profit System for Retailers
- TB&C - Product Sourcing Simulator

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Retailer - Management & Administration

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TB&Co Services

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STORE METHODS AND SERVICES STRATEGY (18a) - Labor costs are high - nearly 50% of margin after shrink. We often see double handling, over ordering, service people with too little to do and very labor intensive methods. We help identify specific issues and decide how items are to be handled and how stores are operated.

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Retailer - Sales and Marketing

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Item and Store Profit System for Retailers
- TB&C - Space Allocation System

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Retailer - Sales and Marketing

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MERCHANDISING PROBLEM DIAGNOSIS (22) - We frequently help our clients find problems in assortment, ordering, handling methods, planning of displays, planning of labor that impact the availability of product and the quality of customer service. We do this for perishables and dry. See also our special service *auditing perishables*.

PROMOTIONAL FORECASTING AND PLANNING (23) - We offer methods of promotional forecasting and planning that deal with the sensitivity of the product to promotion and its effect on other items in the store, increasing the accuracy of projections. The methodology has been shown to sharply increase promotional profit per sq. ft.

STORE DOOR VERSUS WAREHOUSING STRATEGY (24) - We recommend whether to take delivery at the store versus warehouse, considering the possibilities of full service and dropped delivery at the store, warehouse stocking versus cross docking.

MAKE OR BUY STRATEGY (25) - We offer a service to evaluate whether a product should fully manufactured, finished or simply stocked at store level. Our methodology applies to meat and meat products, bakery, deli and floral.

OPTIMUM BUYING AND REORDERING (26) - We offer a service of teaching buyers new techniques for buying at the lowest landed cost. See our special service *buying audit.*

COMPETITIVE PRICING (27) - We offer methodology to recommend the correct retail price considering competition, the uniqueness of the product and the company profit objectives. Our research shows how to price items and categories that are less price sensitive.

SUPPLIER AND CATEGORY MANAGEMENT (28) - We believe that both the supplier and category must be continually monitored for profitability and share of market. We offer a decision making framework and data base design to do this.

RETAIL SPACE ALLOCATION (29) - Many companies have too much space being assigned to items, seriously impacting sales per ft2, and preventing the store from carrying proper variety. We offer the service of analyzing space allocation of a store or prototype store and recommending allocation, shelf depths, shelf widths and shelf heights. We have methodologies that can simultaneously deal with optimizing assortment and frequency of delivery. These methodologies are suitable for ongoing use by individualo stores. See our TB&Co - Space Allocation System product.

STORE LAYOUT (30) - We see many examples where the store layout creates problems of stocking and selling. We offer assistance at two levels: analysis of the customer traffic, selling problems and stocking problems of a given layout; development of an optimum selling floor and backroom layout. We develop a complete store layout including selling, preparation and storage areas to meet the criteria developed in store planning. We plan all fixturing for efficient handling, space utilization and productivity, as well as optimum merchandising.

STORE PROBLEM DIAGNOSIS (31) - We frequently help clients find problems in ordering, handling methods, stocking of shelves and displays and customer service. We do this for both perishables and dry products. See our special service *store evaluation.*

STORE DOOR VS WAREHOUSING STRATEGY (38) - We recommend a strategy of whether to take delivery at the store versus

warehouse, considering full service and dropped delivery at the store, warehouse stocking versus cross docking at the warehouse.

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Retailer - Operations

TB&Co Products (click on a specific item below for a detailed description)	
Store	**Warehouse**
• TB&C - Buying System • TB&C - Retail Labor Planning System • TB&C - Computer Assisted Store Ordering System • TB&C - Customer Service Scheduling System • TB&C - Space Allocation System • TB&C - Item and Store Profit System for Retailers	• TB&C - Buying System • TB&C - Warehouse Planning Program • TB&C - Computer Assisted Store Ordering System

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Retailer - Operations

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TB&Co Services

Store

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RETAIL METHODS (32) - We develop and test standardized methods of preparation, handling and stocking that are both efficient and offer correct product appearance. On-floor preparation of produce and rear-feed refrigerated and frozen product are examples.

STORE FRONT-END SCHEDULING (33) - We are involved in organization of the checkout function to provide good but efficient service. We deal with the mix of express checker, regular checker and bagger and the best way of adjusting to customer demand. We have proprietary, stand-alone software for scheduling to a desired level of service.

Warehouse

DISTRIBUTION DIAGNOSTIC STUDY (1) - This study develops basic efficiency measurements by functional area in your distribution system, including warehousing, transportation and buying. Each aspect or operation is assessed to determine if opportunities exist for improvement. The study prioritizes between improving efficiency with present methods and from significantly changing methods. Study can be limited to a single functional area. See our special service *warehouse audit* for more information.

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RETAIL LABOR CONTROL (34) - We have a unique philosophy in labor control of capturing the exact product mix by store and having handling factors by store depending on the distances and equipment. We can develop fully accurate labor requirements on a forecast or after the fact earned basis

INTELLIGENT STORE ORDERING (35) - In many companies, over-ordering and backroom inventory are the greatest causes of inefficiency. We offer display methods, ordering methods and training to virtually eliminate back room inventory. We also have proprietary software to automatically apply and deplete backroom inventory before ordering from the warehouse.

RETAIL SPACE ALLOCATION (29) - Many companies have too much space being assigned to items, seriously impacting sales per ft2, and preventing the store from carrying proper variety. We offer the service of analyzing space allocation of a store or prototype store and recommending allocation, shelf depths, shelf widths and shelf heights. We have methodologies that can simultaneously deal with optimizing assortment and frequency of delivery. These methodologies are suitable for ongoing use by individualo stores. See our TB&Co - Space Allocation System product.

STORE DOOR VS WAREHOUSING STRATEGY (38) - We recommend a strategy of whether to take delivery at the store versus warehouse, considering full service and dropped delivery at the store, warehouse stocking versus cross docking at the warehouse.

RETAIL SITE ANALYSIS (39) - We study retail sites to determine the market size, composition, and potential for constructing a retail unit to serve a given market. We consider competition by product category, demographics, available selling space. We recommend the overall size of selling space and its allocation to retail departments. We project sales by department and product category.

STORE PLANNING (40) - We execute the detailed pre-design planning, including merchandise assortment planning, space planning and refinement of projections by department and product category. We consider competitive offerings and pricing by product category to optimize profit per ft2.

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DISTRIBUTION PLANNING STANDARDS DEVELOPMENT (8) - An inexpensive study to develop standards for workload balancing and crew sizing. Not designed for confronting the individual worker, yet designed to achieve 95+% of the efficiency gain from full standards. Uses industry standard data and selective time studies.

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Retailer - Inventory & Procurement

TB&Co Products (click on a specific item below for a detailed description)	
Store	**Warehouse**
• TB&C - Buying System • TB&C - Computer Assisted Store Ordering System • TB&C - Product Sourcing Simulator	• TB&C - Buying System • TB&C - Product Sourcing Simulator

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Retailer - Inventory & Procurement

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TB&Co Services

Store

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Manufacturer - Management & Administration

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TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Item and Customer Profit System
- TB&C - Product Sourcing Simulator

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Manufacturer - Management & Administration

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TB&Co Services

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Manufacturer - Sales and Marketing

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Item and Customer Profit System
- TB&C - Product Forecasting System

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Manufacturer - Operations

TB&Co Products (click on a specific item below for a detailed description)	
Production	**Distribution**
• TB&C - Product Forecasting System • TB&C - Materials Purchasing System • TB&C - Inventory Control and Requirements Planning System	• TB&C - Warehouse Planning Program

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Manufacturer - Operations

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TB&Co Services

Production

PRODUCTION PLANNING PARAMETER DEVELOPMENT (60) - We offer a service that develops production economic order quantities and or run lengths. We consider setup, changeover costs verses holding costs of finished goods. We do this in a user-friendly questionnaire driven method that makes it easy to change the models as methods or average rates of demand change.

PRODUCTION SEQUENCING STRATEGY (61) - We offer a methodology of sequencing production runs to minimize inventory and handling of finished goods, permitting maximum loading off the production lines.

PRODUCTION MAINTENANCE/PARTS STRATEGY (62) - We offer a methodology to calculate maintenance frequencies considering usage of production equipment and the cost of planned vs. unplanned replacement. We also develop a strategy for what replacement parts to stock.

PRODUCTION LINE LAYOUT (63) - We offer recommendations on production line layout especially from the view of access to production materials and efficiencies in the handling of finished goods.

Distribution

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Manufacturer - Inventory & Procurement

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- TB&C - Product Sourcing Simulator
- TB&C - Materials Purchasing System

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Distributor - Management & Administration

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Computer Assisted Store Ordering System
- TB&C - Item and Store Profit System for Wholesalers
- TB&C - Product Sourcing Simulator

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Distributor - Sales and Marketing

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Item and Store Profit System for Wholesalers

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Distributor - Sales and Marketing

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STUDY OF CUSTOMER SERVICES (13) - We survey customers' needs and wholesaler offerings to see if services offered are complete, create value and are competitively priced. We especially believe that customer ordering assistance is especially productive for a wholesaler to offer. We can assist in setting up and pricing needed services, including supplying prototype software.

CUSTOMER PROBLEM ANALYSIS (14) - We involve ourselves when retail customers complain that their business is not profitable due to pricing, merchandise or services of the wholesaler. We are able to find the real problem and show both sides how to correct it.

PRICING TO CUSTOMERS FOR WHOLESALER SERVICES (14a) - We have developed a pricing concept that fairly charges the retailer for the services it wants and gives an incentive for the retailer to reduce the wholesaler's costs. We can audit present pricing and adapt our concepts to the business.

MERCHANDISING PROBLEM DIAGNOSIS (22) - We frequently help our clients find problems in assortment, ordering, handling methods, planning of displays, planning of labor that impact the availability of product and the quality of customer service. We do this for perishables and dry. See also our special service *auditing perishables*.

PROMOTIONAL FORECASTING AND PLANNING (23) - We offer methods of promotional forecasting and planning that deal with the sensitivity of the product to promotion and its effect on other items in the store, increasing the accuracy of projections. The methodology has been shown to sharply increase promotional profit per sq. ft.

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 Call us at 203/762-9772

Distributor - Operations

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Warehouse Planning Program
- TB&C - Item and Store Profit System for Wholesalers

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 Call us at 203/762-9772

Distributor - Operations

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TB&Co Services

DISTRIBUTION DIAGNOSTIC STUDY (1) - This study develops basic efficiency measurements by functional area in your distribution system, including warehousing, transportation and buying. Each aspect or operation is assessed to determine if opportunities exist for improvement. The study prioritizes between improving efficiency with present methods and from significantly changing methods. Study can be limited to a single functional area. See our special service *warehouse audit* for more information.

DISTRIBUTION STRATEGY (2) - Most companies have not optimized their distribution. At least the following options should be considered: central warehouse, regional warehouse, cross-dock, and store-delivered. Then we optimize storage capacity, handling capacity and methods for projected levels of business. Finally, delivery schedules must optimize miles and hours used. Forecast sales growth of all categories by region and in physical (cases and cube) units. Determine optimum strategy to serve regions for each category. Consider full line warehouse(s), satellite warehouses, cross-dock operations, local DSD consolidation and more DSD.

DISTRIBUTION CAPACITY PLANNING STUDY (3) - Forecast sales growth, by region, of categories served by warehouse. Develop inventory needs, including forward buying; plan organization of the warehouse to meet inventory needs and/or maximize storage capacity. Optimum types of slots and slot heights are considered in all planning.

WAREHOUSE LOCATION STUDY (4) - Determine where to locate a warehouse to minimize all costs, including operating, delivery, inbound transportation costs and purchase costs.

WAREHOUSE METHODS (5) - Develop optimum equipment, methods, and information/data recording procedures for receiving, put away, selection, loading, sanitation and maintenance. Mechanization and/or flow racking considered as appropriate.

WAREHOUSE LAYOUT (6) - Develop an optimum layout that permits good load building and minimum travel, yet presents the product to the customer in a logical sequence. Layouts can be developed for two travel patterns to serve small and large stores.

WAREHOUSE SLOTTING (7) - Initial assignment of items to exact slot address and subsequent evaluation of need for change. Proprietary software program makes optimum slot assignments by item, evaluates all palletization for reasonableness and summarizes requirements by aisle to facilitate slotting.

DISTRIBUTION PLANNING STANDARDS DEVELOPMENT (8) - An inexpensive study to develop standards for workload balancing and crew sizing. Not designed for confronting the individual worker, yet designed to achieve 95+% of the efficiency gain from full standards. Uses industry standard data and selective time studies.

DELIVERY SCHEDULING STRATEGY (9) - Designed to determine how to improve fullness of trucks and save trucking miles and hours. Considers the use of delivery waves, routing, load balancing and flexible multiple stop programs.

DISTRIBUTION COST STANDARDS AND VARIANCE ANALYSIS (11) - In addition to cost standards for item handling, we now have cost standards for inventory levels, product cost and delivery cost. We have developed a variance analysis system that identifies and assigns financial responsibility to buying, warehousing and transportation for any variances. With our program we can see where one part of the organization overperforms and another underperforms. We also can identify situations where the company is meeting productivity standards for its people yet is still inefficient.

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Distributor - Inventory & Procurement

TB&Co Products (click on a specific item below for a detailed description)

- TB&C - Buying System
- TB&C - Product Sourcing Simulator

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 Call us at 203/762-9772

Distributor - Inventory & Procurement

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TB&Co Services

BUYING AND INVENTORY MANAGEMENT (12) - We audit all aspects of buying and inventory management, including assortments, purchase brackets, lead times, item order quantities, vendor and item inventory levels, control of and return on forward buying and control of promotional inventory. We audit and correct systems problems as necessary, including forecasting, reordering and performance control. We have new methods of forecasting by customer group, including promotional and seasonal forecasting.

CATEGORY STRATEGY (15) - A category should be assigned inventory, space, and a promotional budget; it should develop a certain profit contribution and have a certain share of the market. We develop a program of measuring these key variables, researching opportunities and re-allocating resources between categories.

PROMOTIONAL STRATEGY (16) - Promotional methods utilized and extent of utilization must be continually be re-examined, considering cost and effectiveness. The promotional zones in a store have great potential value, but are misused or underused. We establish a program where these zones can be measured as profit centers and assigned to items and programs that maximize profits.

SUPPLIER STRATEGY (18) - Given supplier profitability and available programs, we establish a system for discovering, developing and using programs with suppliers to maximize profit. There is too little negotiating on programs for profitability. We help resolve: should we use a supplier EDLP, 'just in time' delivery and should the supplier make replenishment decisions?

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TOM BROWN & COMPANY

Strategies and Applied Sciences for Better Consumer Goods
Marketing and Distribution, Worldwide

TEST YOUR MANAGEMENT PROCESS AGAINST BEST PRACTICES!

(These practices should improve profit per sq. ft. by 15+%!)

1. STORE STRATEGY PLANNING (PRE-OPENING OR 'AS IS')
   - Assess potential customers by distance from site.
   - Assess all supermarket and retail competition in terms of category impact.
   - Develop merchandise, handling, service concepts given site, all competition.
   - Do a pro forma P&L, given competition and above concepts.
2. CRITICAL ON GOING INFORMATION TO OPTIMIZE STORE
   - Realized net profit contribution per sq. ft. by category, reconciled to P&L.
   - Earned labor by department by day.
   - Earned sq. ft. and facings by item and category.
3. CRITICAL ON GOING OPERATIONAL SYSTEMS
   - DSD check in per authorized item list with cost for control and information.
   - Recommended orders to minimize costs and inventory, yet assure service.
   - Promotional ordering system that orders correct amount for correct time.
4. ON GOING HQ/STORE PROBLEM SOLVING, IMPROVEMENT PROCESS
5. INCENTIVE CONTRACT WITH WHOLESALER
   - Incentives to carry the most popular, low holding cost items, when possible.
   - Incentives to use off peak delivery.
   - Incentives to fill trucks.
6. PERIODIC REVIEW AND UPDATE OF EACH STORE'S STRATEGY PLAN

TOM BROWN & COMPANY WILL HELP YOU IMPROVE YOUR PROCESS WITH OUR ONGOING INVOLVEMENT!

PERFORM PRE-OPENING OR AS IS PLANNING FOR ALL STORES.

PERFORM PERIODIC STORE REVIEWS AND PLANNING UPDATES ANNUALLY OR WHEN CAPACITY ISSUES ARISE.

FURNISH AND MAINTAIN KEY ON GOING OPERATIONAL SYSTEMS, REPORTING SYSTEMS AND TRAIN PERSONNEL IN THEIR USE.

DEVELOPMENT AND MAINTENANCE OF INCENTIVE AGREEMENT BETWEEN WHOLESALER AND PARTICIPATING RETAIL STORES.

SERVE AS FACILITATOR IN HQ/STORE PROBLEM SOLVING AND IMPROVEMENT.

WE'LL DO OUR PROGRAM AT A VERY LOW COST PER STORE, WHICH IS VIRTUALLY CERTAIN TO BE RECOVERED IN A YEAR.....IF YOU FOLLOW THE PROGRAM!

For detailed information, or to contact us, see our web site, fax this flyer or call:
Tom Brown in Wilton, CT; 203-762-9772; FAX 203-761-8671, tom@tombrownco.com
Mark Schukas in Chicago, 773-267-4555, mark@tombrownco.com
Claire Hanna-Michael in Toronto; 416-621-9292x227, claire@tombrownco.com

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TEST YOUR OPERATIONS VS THESE EXECUTION EDGE PRACTICES!

'YES' ANSWERS mean 5-10% less labor, 1-2% less shrink, 2% more in stock!

1. Are your ordering procedures and shelf allocations such that all normal orders go on the shelves?
2. Are your backrooms empty except when staging arriving merchandise?
3. Do you have a program for dealing with leftover promotions that avoids return to the back room?
4. Do you have sufficient time and equipment that all ordering can be done after shelf stocking?
5. Are out of stocks monitored on an ongoing basis and less than 1%?
6. Is damage monitored (even if supplier takes it back) and less than 1%?
7. 100% check-in suppliers with data base of authorized items and cost?
8. Is your labor budgeting process such that budgets are explicitly customized to each store's layout, product mix, customer mix and sales?
9. Are labor budgets an objective instead of a not to exceed amount?
10. Is staffing organized so that service departments can efficiently mix preparation and selling activities?
11. Is staffing organized so that some staff can efficiently move between checkout and stocking activities?
12. Is there an ongoing weekly measurement of profit per ft2 by category and item per store for explicit use in adjustment of assortment and pricing?
13. Can store management easily adapt to local conditions without conflict with merchandising policies?

COULDN'T ANSWER YES TO ALL THE QUESTIONS? WE WILL HELP!
WE ARE SUPERMARKET ORGANIZATION, OPTIMIZATION EXPERTS!

Back Room, Front End Methods Design, Training and Labor Scheduling
Control and Reduction of Shrink
Ordering Strategies, Systems, including Computer Assisted Ordering
Assortment Management
Space Allocation including Management of Displays
Retail Pricing to Maximize Profit
Site Evaluation and Determination of Strategy for Site
Net Profit Analysis by Category and Comparison between Stores
Powerful Web-Oriented Systems for Analysis and Recommendations
Architects of Organization and Policy to enable Local Adaptation

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INTRODUCING THE RETAIL LEAK DETECTOR

BREAKTHROUGH TECHNOLOGY FOR MONITORING RETAIL

Monitors Net Profit per Ft3 at the store category and item level

Measures All Costs and Net Profit per Customer Transaction (even where you pick and deliver order)

Monitors Utilization of Space and Labor

Monitors Pricing and Assortment at Region and Company levels

Gives consistent information to Buyers, Merchandisers and Stores

It is the only way to assure that each store is operating at its maximum financial potential.

It is the only way to separate store responsibility from buyer-merchandiser responsibility

It is the best way to compare categories and direct the buyers.

It is the best way to keep stores and buyers working well together.

It is the best way to drive customization of a store to its local market.

WORKS EACH WEEK FROM SCANNING DATA AND TB&CO MODELS

SET UP A STORE IN MINUTES WITH AN EASY QUESTIONNAIRE

GUIDANCE OFFERED ON ORGANIZING FOR LOCAL CUSTOMIZATION

Way to double profit contribution per ft3 or per customer transaction.

For detailed information, or to contact us, see our web site, fax this flyer or call:
Tom Brown in Wilton, CT; 203-762-9772; FAX 203-761-8671; EMAIL tom@tombrownco.com
Mark Schukas in Chicago; 773-267-4555; EMAIL mark@tombrownco.com
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TEST YOUR BUYING, REORDERING AGAINST BEST PRACTICES!

Best practices will reduce inventory 10-30%, costs ½-5%, outs 1-5%!

1. Quantity Bracket selection at the time of writing each order, balancing purchase cost against handling and holding costs?
2. Aggressively use consolidations, but have them built as one order by your system, to stretch out reorders and reduce inventory?
3. Promotional ordering based on forecasting with response models by store group and bookings?
4. Keep base data and forecasts by store group, not by warehouse?
5. Use automatic seasonal forecasts by category?
6. Give order forecast to interested suppliers to minimize shorts?
7. Always order an Economic Order Quantity, per formula, balancing handling and holding costs, adjusting to layers or pallet as required?
8. Balance orders by need date, not sell date, to stretch out reorders and reduce inventory?
9. Management of safety stock to a % service level target rather than fixed days of safety?
10. Short lead times and daily review for most vendors?
11. Share orders and inventory with cooperating warehouses?
12. Approve system-proposed orders without buyer changes?

COULDN'T ANSWER YES TO ALL QUESTIONS?
CONCERNED ABOUT PRODUCT COST?
WE ARE THE FOOD INDUSTRY BUYING SYSTEM SPECIALISTS!

Evaluation and Tuning of Existing Buying Systems
Proprietary System & Decision Models For Best Buying Practices:
Best Forecasting of Any System
Automatic Bracket and Source Selection
Automatic Ordering of Consolidations
Best Load Building and Order Justification of Any System
System Easily Integrates with Selling, Billing, Warehouse Systems
System creates 100% Acceptable Orders

For detailed information, or to contact us, see our web site, fax this flyer or call:
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WE ARE THE FOOD INDUSTRY BUYING SYSTEM SPECIALISTS!

Proprietary System & Decision Models For Best Buying Practices:
Best Forecasting of Any System
Automatic Bracket and Source Selection
Automatic Ordering of Consolidations
Best Load Building and Order Justification of Any System
System creates 100% Acceptable Orders

OUR BUYING SYSTEM MAKES BETTER PURCHASE ORDERS

Here is what our buying system can do for you!

For fast moving, truckload or pallet vendors:
Lower inventory
Higher service

For slower moving vendors:
Lower inventory
Higher service
Lower purchase cost
Lower handling cost

Here is why our system can do this:

Better forecasting
Better calculations of safety stock
Better load bulding
Order justification logic
Automatic economic order quantities
Automatic selection of quantity bracket
Automatic pallet mixing
Automatic consolidations
Automatic backorders

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TEST YOUR WAREHOUSE AGAINST THIS CHECKLIST

1. 75% of reserve pallets within 75' of pick slot.
2. No repalletizing on the dock to fit items into slots.
3. No hand stack slots used for items moving 15+ cases/week.
4. Selectors can build pallets without forced trips to the dock.
5. No reserve slots with more than one item.
6. Average inbound pallet travels less than 25% x whse depth.
7. No more than 20 items need daily pick slot replenishment.
8. No layer items have multiple layers of reserve.
9. Products selected by category for easy handling at store.

COULDN'T ANSWER YES TO ALL QUESTIONS?
CONCERNED ABOUT EFFICIENCY?
TIGHT SPACE?

WE HAVE A WAREHOUSE PLANNING PROCESS THAT WILL INCREASE STORED CUBE, ALLOW OPERATION WITH LESS HRS!

Intelligent Forecast, Adjusted for Growth, Season, Promotion
Calculates an Economic Order Quantity, Chooses Pallet Quantity
Calculates Required Pallets On Hand in Future Period by Item
Chooses Best Type Slot for item, Tabulates Needed Slots by Type
Compares What You Have to What You Need
Organizes Slots by Velocity, Case Type or Category
Calculates Average Travel versus Ideal for Forklifts, Selectors
Calculates Average Labor Hours Used versus Ideal
Calculates labor saved between pallets used and recommended
Used for one time studies or weekly use in parallel with WMS

For more information, see our web site or contact:
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TEST YOUR WAREHOUSE AGAINST CHECKLIST #2 !

1. Order selecting is done each day with only minor overtime?
2. All receiving is put away by the end of the receiving shift?
3. No reserve pallets get multiple replenishment trips before being emptied?
4. Never travel the warehouse to pick less than 100 cases?
5. No pick slots less than 25 inches high including wood, clearance?
6. No more than 5 -10 inventory adjustments made each day?
7. Some reslotting done every week to keep items current, with the buyers respecting warehouse slot capacities?
8. No inventory in house longer than 13 months (minimum acceptable if seasonal) or 5 months (more acceptable)?

COULDN'T ANSWER YES TO ALL THE QUESTIONS?
WE HAVE TOTALLY PRACTICAL SOLUTIONS TO THESE ISSUES
WE ARE THE FOOD INDUSTRY WAREHOUSING SPECIALISTS!

Experts on Lowering Costs of Operation
Experts on Projecting Capacity Needs
Experts on Methods and Layout
Experts on Labor Standards that are Arbitration Proof
Experts on Tuning Buying System to Realities of Warehouse
Experts on Pricing (to outside) and Transfer Costs (to inside)
Developers of Workload Planning Standards
Developers of Daily Load Balancing Models
Developers of Weekly Slot Maintenance System
Developers of Comprehensive Performance Evaluation System
Developers of Warehouse Capacity Planning System

For detailed information, or to contact us, see our web site, fax this flyer or call:
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TOM BROWN & COMPANY

CONSULTANTS TO MANAGEMENT

P. O. Box 431
Wilton,CT 06897
(203) 762-9772
Fax 203-761-8671

February 11, 2002

Dear CFO/Administrative Executive:

This letter is to introduce Tom Brown & Company. We help a small number of companies manage better using creative tools and techniques. Our website www.TomBrownCo.com describes us fully and lists our e-mail addresses.

We are writing this because there is a big opportunity to improve wholesalers' profits in a way you fully understand but may not be able to execute.

The opportunity is to improve the return on services you provide to your retailers, by dealing with specific, actionable issues. There is a big difference between not recovering or barely recovering the cost of services and making 200 to 300% profit contribution from your services, which is usually possible!

Your operating executives may argue that business is very hard to get and very competitively priced, with little opportunity to increase profits. We respectfully disagree! We think that you must measure return on services rendered and have an organization and process in place to deal with what you find.

We offer a system to measure net profit contribution after activity based/value added service costs as a percentage of the cost of those services. We have the IT expertise to make this automatic each week and the management expertise to support you in a process to deal with and improve upon what you find.

We can share some of the detail of the system and process within the space of this letter:

- Every week we analyze the item inventory data to get item profit contribution, which is item sell less item purchase less item holding and handling; we also analyze the billing detail to get customer profit contribution by delivery, which is item profit contribution plus fees less order selection and delivery cost.
- Handling Costs are calculated automatically: item costs are based on item cube, weight and pack plus warehouse characteristics based on warehouse layout, racking and travel distances; customer costs are based on items, cases and cubes ordered, required selector travel and store delivery characteristics.
- We summarize net profit by customer, customer group and product category per week..
- We also summarize required labor by warehouse department and task, by week.
- There is a one-time setup: for a store which involves answering a questionnaire, for each warehouse department also involving a questionnaire and for each delivery route involving input of planned miles.

Generally we want each department to be responsible for the costs of its errors as follows:

- Operations, buying or sales, depending on the circumstances, for unplanned deliveries.
- Buying for selling below cost or target profit levels.
- Operations for using more than budgeted labor.
- Transportation for using more miles than planned or operating at a higher than planned cost/mile.

Generally we want sales to keep deliveries big enough to be profitable by reducing deliveries when the size of the delivery falls, or getting an added fee. Sales or buying must sell customers on alternative items when there is costly redundancy in the assortment. General Management must deal with dropping or re-pricing an unprofitable customer. Operations must deal with reorganizing the warehouse to efficiently deal with each business segment.

Versions of this system have been around for some time and have doubled profits on value added services. If this makes sense to you we should discuss the possibility of an installation at your company.

Sincerely yours,

J. Tom Brown, President

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Strategies and Applied Sciences for Better Consumer Goods
Marketing and Distribution, Worldwide

WE ARE THE WHOLESALER PROFIT LEAK DETECTORS!

WE HAVE AN ACTIVITY BASED COST SURVEILLANCE SYSTEM!

EACH WEEK WE MONITOR:

Net Profit Contribution of Each Delivery after All Costs
Return on Deployed Resources for each Customer
Profit Contribution of each Customer
Efficiency of Management of Each Warehouse
Efficiency of Management of Transportation
True Profit Contribution of Backhauls
Profit Contribution of Cross Dock Transactions
Below Cost Sales after Holding, Handling
Items to Write Off, Dispose of
Items not justified for Stocking

CONCLUSIONS FROM RECENT STUDIES

- Possibly 33% of deliveries are not profitable.
- Possibly 15% of customers are not profitable when costs are correctly assigned.
- Cross Docking gives rise to costs that are not recovered.
- Certain items cannot be stocked or delivered at a profit.
- Trucks are significantly underutilized over the week.
- Peak load deliveries are often not profitable when costs are correctly assigned.
- Backhaul revenues often cover up inefficient operations.
- It is possible to get 300-400% return on deployed resources in behalf of a customer.

NEW, PROVEN TECHNOLOGY MAKES THIS MONITORING POSSIBLE!

For detailed information, or to contact us, see our web site, fax this flyer or call:
Tom Brown in Wilton, CT; 203-762-9772; FAX 203-761-8671, tom@tombrownco.com
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CONCERNED FOR EFFICIENCY, PROFITABLITY? TIGHT SPACE?
TRY THESE FAST-PAYOFF SERVICES OFFERED TO WHOLESALE DIVISIONS THAT DO NOT CONFLICT WITH CORPORATE HQ

Warehouse Capacity Requirements Planning

Audit of Existing versus Potential Capacity

Warehouse Slotting and Slot Maintenance

Account Profitability

Audit of Labor Productivity with Methods Recommendations

Audit of Transportation Scheduling/Routing Efficiency with Recommendations

Site and Category Analyses for Customers

CONCLUSIONS FROM RECENT STUDIES

- Slotting Efficiency gradually degrades with time, increasing travel and handling, seriously affecting productivity, capacity.
- Many warehouses receive many less than pallet quantities of an item, rather than a single, economic order quantity, also reducing effective storage capacity.
- Many delivery programs ignore costs of peak period service.
- Most pricing to customers require more ‘policing’ to minimize services given without compensation, which otherwise make cost to serve higher and profits lower.
- Gross Margin, by itself, is not an adequate measure of customer profit. Wholesalers must measure net profit contribution after all relevant activity-based costs. Order Picking, Delivery and Returns are especially relevant.

For more information, see our web site or contact:
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TB&Co - Industry Issues

Retailer - Single Store

- TB&Co Industry Issues - Retail
- TB&Co Industry Issues - Independent Retailer
- TB&Co Industry Issues - Small Retail Organization

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TB&Co - Industry Issues

Retailer - Chain using a Wholesaler

- TB&Co Industry Issues - Retail
- TB&Co Industry Issues - Independent Retailer

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TB&Co - Industry Issues

Retailer - Chain using a Single Warehouse

- TB&Co Industry Issues - Retail
- TB&Co Industry Issues - Warehouse Distribution
- TB&Co Industry Issues - Single Warehouse Distribution
- TB&Co Industry Issues - Self Distribution

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TB&Co - Industry Issues

Retailer - Chain using Multiple Warehouses

- TB&Co Industry Issues - Retail
- TB&Co Industry Issues - Warehouse Distribution
- TB&Co Industry Issues - Multiple Warehouse Distribution
- TB&Co Industry Issues - Self Distribution

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TB&Co - Industry Issues

Wholesaler - with a Single Warehouse

- TB&Co Industry Issues - Wholesaler
- TB&Co Industry Issues - Warehouse Distribution
- TB&Co Industry Issues - Single Warehouse Distribution
- TB&Co Industry Issues - Wholesaler - Single Warehouse

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TB&Co - Industry Issues

Wholesaler - with Multiple Warehouses

- TB&Co Industry Issues - Wholesaler
- TB&Co Industry Issues - Warehouse Distribution
- TB&Co Industry Issues - Multiple Warehouse Distribution
- TB&Co Industry Issues - Wholesaler - Multiple Warehouses

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TB&Co - Industry Issues

Manufacturer - with a Single Plant

- TB&Co Industry Issues - Manufacturer Selling Program
- TB&Co Industry Issues - Manufacturer Distribution
- TB&Co Industry Issues - Manufacturer Production
- TB&Co Industry Issues - Manufacturer Route Delivery

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TB&Co - Industry Issues

Manufacturer - with Multiple Plants

- TB&Co Industry Issues - Manufacturer Selling Program
- TB&Co Industry Issues - Manufacturer Distribution
- TB&Co Industry Issues - Manufacturer - Multiple Plants
- TB&Co Industry Issues - Manufacturer Production
- TB&Co Industry Issues - Manufacturer Route Delivery

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TB&Co - Study:

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Recent Buying Study Conclusions:

Overview

Tom Brown & Company recently completed a study of industry buying practices and opportunities. In a recent mailing, we offered our clients the opportunity to request a full explanation of this study. This is the full explanation.

The conclusions were as follows:

1. Do not stock items at all warehouses. Centralize slow movers.
2. Share orders among warehouses and consolidate vendors.
3. Ordering errors are costly. Get a buying system that tells you correctly what to order, and follow it without change!
4. Warehouse costs are typically 20% higher due to faulty buying and warehouse slotting not synchronized.
5. If you know true product costs, including holding and handling, you will have improved assortment and pricing.

Our study revealed a somewhat alarming point about this. Many organizations are not aware of these opportunities! Even when they are aware, many financial, systems and political obstacles keep them from being realized. *Management should not assume that company personnel are aware of these conclusions and that they are being addressed!*

Conclusion #1

Do not stock items at all warehouses. Centralize slow movers.

It is basic that stocking an item incurs costs for space and inventory.

Obviously an item can be stocked at one of the warehouses of a multiple warehouse operator and sent to the other warehouses as needed for their customers. There are costs of doing this primarily from transportation, but also in order picking or handling. These costs can be compared with savings from a lower inventory to see if the central stocking is justified.

The savings from inventory reduction vary with the methods used. If there is sufficient volume to ship just-in-time to the delivering warehouse, the following are utilized:

1. Mixed pallets are cross docked to the customer, or
2. arriving products are 'reverse picked' (distributed) to a mixed item store pallet in the warehouse and sent to the store on the next scheduled delivery.

These methods, especially 'reverse picking', typically offer lowest handling cost and greatest inventory savings.

When just in time cannot be done due to the increase of lead time or lack of volume, then an economic order quantity can be sent to the delivery warehouse that is much lower than the order quantity needed if the item were purchased directly from the supplier. Also a handling and stocking method can be used to minimize these costs.

We also have the experience that the supplier will often subsidize the transportation to the delivery warehouse, recognizing that the item so handled is virtually carried by the delivery warehouse, probably with an increased assortment being available to the customer from the central stocking facility.

Finally, we would make two more points for those who may think that this doesn't apply to them.

1. You do not need new facilities to do this. Each warehouse in a network could be assigned a set of vendors for central stocking on the basis that the assigned warehouse is closer to the vendor's plant or warehouse. Then the participating warehouses are stocking less items, but selling more of the item, most likely needing less space than before the central stocking.
2. You do not need to be a multiple warehouse operator to do this. You only need to cooperate with other warehouses.

	Tom Brown & Company is the developer of software tools, cost models and analysis methodologies for determining the economic justification of central stocking.
Conclusion #2	**Share orders among warehouses and consolidate vendors.** It is a fact that for most vendor orders, only a few of the items are needed immediately and the balance are 'filler' items needed to make the order minimum. Thus we point out that if an order is shared, the days supply purchased is sharply reduced, or the purchase in a lower cost bracket is justified. Partially offsetting these savings are the costs of sharing. These costs of sharing include the extra transportation to reach the other warehouses sharing the order above the cost of going directly to these warehouses...and the handling of the shared items at intermediate stops. We can minimize the transportation cost by creating a truckload of mixed vendors' items for the final leg of the journey to the most distant warehouses. The nearest warehouse in the network to the supplier would serve as the entry warehouse, where the truckload from the supplier is split up by destination warehouse. The handling cost for doing this would be minimal if the facility is carefully laid out for this. As in central stocking, we have experience that the supplier is most often willing to pay for the final move to the delivery warehouse in a mixed truck. This method also works with consolidations whenever the added transportation to consolidate is less than the inventory savings. And it is well known that many suppliers give best truckload price for pickups of a partial truckload quantity. The observations made above concerning not needing new facilities and being able to cooperate with other companies are also valid here. And we would point out that a facility could have an order sharing *and* central stocking mission. Finally, we have seen a problem with vendors that require pallet ordering not showing sufficient inventory reduction from order sharing. In such cases we recommend either splitting the pallets at the entry facility or using a strategy of central stocking *and* shared orders, where the central stocking applies to items with large supplier-required order quantities. Tom Brown & Company is the developer of a software tool, cost models and an analysis methodology for determining the economic justification of order sharing.
Conclusion #3	**Ordering errors are costly. Get a buying system that tells you exactly what to order, and follow it without change!** Ordering errors are prevalent and costly. They may increase inventory and or warehouse handling costs by 20 -25%! Here are some of the most serious errors. 1. The buyer and system allow too much safety stock on items that appear necessary to order. 2. The buyer and system do not order economic order quantities and force the warehouse to handle small quantities of slow or medium items almost every order cycle. 3. The buyer over orders promotions. Needless to say, leftover promotion is the biggest inventory issue in the industry for most companies. And it is bigger now that there is no forward buying opportunity associated with promotions. 4. The buyer and system balance orders incorrectly. We would like to cover all requirements in a buying 'horizon' so that there would be no need for another order within that horizon. Generally the most accurate balancing index is need date, or the date when the next order quantity of an item is needed, considering that safety stock will not be used. Thus the system must take all needs up to a cut off need date for the order being placed, and so cover the horizon. • However, the typical buyer and system balance to 'day's supply of on hand plus on order'. • Unfortunately for that method of balancing, 'on hand' includes two aspects of inventory not related to timing of the next order, safety stock and order quantity. Safety stock is not a constant days supply. Among other things, safety stock

	depends on the volatility of the item, order frequency of the item and service level desired by management for that item. Similarly, 'on order' includes order quantity, which is also not a constant days supply in modern buying. *Economic* order quantity depends on the cost and cube of the item and the item's movement per week. • Thus if one balances with days supply, the inclusion of safety stock and order quantity creates a distortion that makes it likely that we will not fully cover all requirements in a buying horizon. 5. The buyer and system do not change cost brackets enough, significantly raising inventory or increasing product cost. 6. The buyer and system do not consider economic order quantities at the vendor level. Generally, if it is possible to order more than the order minimum without exceeding a truckload or other order maximum, it should be done provided the order cost plus holding cost does not increase as more is ordered. Improved buyer training and awareness accompanied by system fine-tuning can solve some of these problems, at least in part. Some companies would find it to their advantage to change their system. Tom Brown & Company has developed inventory and ordering analysis tools as well as ordering system modules. And we work with 'fine tuning' any system.
Conclusion #4	**Warehouse Costs are typically 20% higher due to faulty buying and due to warehouse slotting not being synchronized** We have already covered typical ordering errors in the previous section. We need to understand their costs. Then we need to deal with the warehouse slotting issues. Here are the top three consequences of ordering errors. 1. Product will not fit in the warehouse. Then it is left in aisles, which results in added travel time for forklifts and pickers, and possible lost product that affects service levels. Or it may be moved to outside storage with a whole set of costs to manage it and get it back to the main warehouse. 2. Product somehow fits, but there are many reserve pallets all over the warehouse. Some will be temporarily lost. Companies are driven to buy a warehouse management system to keep track of pallets and to find places for excess reserve pallets. The warehouse management system has its own costs and issues, but it doesn't solve the underlying ordering issues. 3. The frequent ordering creates lots of small pallets, which are stacked on top of each other in mixed slots, causing big increases in forklift costs. Or just as bad, small pallets reduce useful capacity of the warehouse. Warehouse slotting issues arise when the warehouse does not have enough of the proper sized slots for what the buyers have ordered. There is one set of issues when the buyers order in too small quantities and another set when they order too large quantities. We have mostly discussed the small quantity problem. Now we discuss the large quantities. The typical problem is that the pallet is too high for the available slots. Then the warehouse is forced to skim off layers, creating a second pallet for the item for each pallet ordered. This effectively doubles the receiving, put away and replenishment costs, assuming there is space for additional pallets. Otherwise, there are even more cost increases!
Conclusion #5	**If you know <u>true</u> product costs, including holding and handling, you will have improved assortment and pricing.** Most wholesalers and retailers know their product cost as what they pay for the product. It may or may not include the payment discount, depending on the company. It virtually never includes costs of handling or holding the product. An average *case* has a holding cost of 5 cents and a handling cost of 5 cents in the warehouse. Picking an order and delivering that case can cost another 10 cents for an average trip of, say 100 miles one way. And a typical *package* costs 2 cents to stock at retail and 2 cents to check out. But all items are not average. A large paper item could cost 6 times average to handle through the warehouse and onto the shelf and 3-4 times average to check out.

	Thus we believe that there are many items that are big losers and some others that are bigger than anticipated winners. If you believe that you need to make a profit yet carry some reasonable assortment, you would minimize the assortment where you didn't make money and expand out where you could make more money. And, recognizing that cube, weight and pieces handled directly influence handling costs, you wouldn't charge a percentage for warehousing and transportation as most distributors do. Thus we see a giant subsidization of, say the bulky items by the average items, the frozen items by the dry items, etc., due to not recognizing true handling costs of a given item. Tom Brown & Company has developed an ABC Profit model that models the handling and holding cost through the system and therefore knows item, customer and retail store profit by item.
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Seven Practices of Successful Distribution

(As published in Food Logistics Magazine - March 1999, By Tom Brown, President, TB&Co)

It is clear that there are two sides to the question "What should the rules be for getting product through the distribution system in the best way?" But maybe there is a best way that most of us could agree on. Let's try and define it.

First some assumptions (that may or may not be obvious):

- The manufacturer wants to get its product to the customer at the lowest possible cost.
- The distributor wants to see the lowest possible cost on each individual product; and does not want the manufacturer's pricing on one product to subsidize another.
- The distributor understands that the manufacturer must make a profit on what is sold.
- Logistics costs should be considered separately from marketing costs.
- The distributor generally should pass on costs to its customers and consumers. It should not let its pricing on one product subsidize another either!
- The distributor should be placed in the position of deciding on logistics options on the basis of its self interest.
- Manufacturers and distributors should each understand that the other has fixed costs and variable costs; that variable costs are easy to pass on; and that fixed costs must be reduced by some type of reorganization before they can be passed on.
- The distributor wants the capability of using its own trucks to transport products from the manufacturer, with a fair allowance for the normal, incremental costs of delivery by the manufacturer. It is understood that there are fixed costs of order processing and delivery that cannot be saved without re-organization.

Given these assumptions, what specific practices could be done in logistics that are not now being generally done?

1. The distributor should have access to the manufacturer's products at every stage of the production distribution system at an equitable cost. It is generally thought that the manufacturer should pass on the both costs of transportation to an intermediate warehouse and the handling into that warehouse. It is understood that there are fixed and variable costs involved.

- The distributor wants to pick up multiple orders with a single truck to be considered as a truckload for purposes of pricing. It is understood that there is a cost of processing additional purchase orders included on the truck and for sorting and palletizing merchandise by PO on a multiple PO pickup.

  (The distributor would also like the right to write a single purchase order covering all destinations, be responsible for sorting and palletizing and receive an allowance for same..)

- The distributor should have the opportunity to have a choice of purchasing pallets, layers or loose cases, understanding that there is an additional cost of layers or loose cases.
- The distributor should be offered pallet quantities that are reasonable for a that distributor's warehouse racks and inventory budget, not necessarily a floor to ceiling pallet in a truck or rail car. There is likely a significant handling cost paid for some of the large industry pallets through the typical distributor's system.
- The distributor should be offered the possibility of a reduced cost in return for accepting all responsibility for damage after receipt of goods at its distribution center.

  (The distributor also wants to be given packaging that meets industry standards for handling without undue damage to the product)

- The distributor should be allowed to store product at a slow moving warehouse, but to have transportation costs paid to the distributor's local delivery warehouse, just as if the product were being stocked there. It is important to reduce inventory in the system. It will often increase variety carried in a useful way.

- We would also comment that the delivered cost concept offered for most packaged goods promotes inefficiencies in the system. It is likely time to look more closely at FOB (origin) pricing where the buyer is responsible for freight costs.

It is interesting that most of these ideas are actually offered by *some* manufacturers. We would be happy to share our knowledge of who offers what.

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Studies in Management Information:

(Presented at a private meeting by Tom Brown, President, TB&Co)

CURRENT SITUATION	Most companies have management information in the form of printed reports. A few allow their users to import files into PC databases for analysis. A few others have structured executive information systems where high level financial results and figures can be seen on line with limited supporting detail. TB&Co proposes, as an alternative, its *Management Information Network* concept.
THE MANAGEMENT INFORMATION NETWORK	Every operating business following this concept has a network system, at least updated weekly, with results for all aspects of the business that are dynamic being shown. Here are the main ideas concerning what is to be shown: **Business Summary and Supporting Detail** All levels listed below show generally consistent information. Additionally, the following information, possibly excepting some item detail, is available in a history by week format as well. 1. A one-screen summary of business for the week: Sales, cost of goods, costs of service (planned and actual), net profit contribution, and profit ratio (or index) would be shown in whatever detail is appropriate for the business. In virtually all businesses it is not possible to get handling costs by customer and item from most accounting systems. Accordingly it is recommended to use Activity Based Costing or Standard Cost Models for these factors. A recommended profit value index would be net profit contribution per dollar of applied value added activity. For example, sales of $100,000, profit contribution of $15,000, value added activity $5000 (cost to handle the goods, pick and deliver the order), would show a return on value added of 300%. 2. A breakout of the one screen summary by customer groups, basically showing the same information. For a retailer, these could be customer groups or even retail stores serviced. 3. breakout of the one-screen summary (#1) by product class. 4. breakout of the screen (#2) by customer group to individual customers or customer locations. 5. breakout of the screen (#4) by individual customer by customer shipment or delivery. 6. breakout of customer shipments (#5) to the invoices with item detail. 7. breakout of the product class summary (#3) into individual product summaries. 8. breakout of product summaries (#7) into purchase or production lot detail. **Uncorrected Errors** • Uncorrected data errors that could bring aspects of results into question are shown on error screens. For example missing physical data on items, missing customer profile data could cause results to be miscalculated. • Normally the business manager is only concerned that the operating staff has reviewed and corrected this information, but the errors are there for the record, and for instant validation. **Costs and Models** • Costs, Cost models, Planning and Budgets used are shown here. For example the planned delivery route and the allocation of costs to customers on the route would be shown. Thus management can see whether lack of profit was planned or simply the accident of a particular delivery problem. • Again, the business manager is only concerned that the operating staff has reviewed and corrected this information, but it is there for the record, and for instant validation. **Operating Details**

	• Appropriate operating details are available for reference, such as delivery routes, fee schedules, pickups and backhauls received, deliveries received from vendors. • Again, the business manager is only concerned that the operating staff has reviewed and corrected this information, but it is there for the record, and for instant validation.
MAKING IT PAPERLESS	This management information can be made paperless or nearly so if these concepts are followed: 1. Any data that has more than, say, 20 lines can be: • moved through with the mouse • viewed in any conceivable sequence that would make sense and aid analysis (weekly profit, % value added profit, cost of error, type of error, etc.) • have a relevant section of the data printed, as a last resort, to show to a colleague not on the network 2. Data that is not source data or factual data, but that has caused a misleading or undesirable result must be instantly changeable and the result instantly recalculated. • For example, if the minimum delivery charge were $25 and management would like to see $50, simply change and recalculate. 3. Anyone in management or responsible for certain data must be able to see that data on the network via a PC assigned to that person. If one team member sees a problem, that member can call the responsible team member who can also see the same data.
SPECIAL SITUATIONS	The *Management Information Network* has special situations in handling branch operations and in handling category profits. Each is discussed below. 0. Branch Operations • Branch Operations should each have their own sets of results. However, there should be a global roll-up. • This global rollup should have most but not all detail available to the branch. • Thus the customer profitability might stop at customer per week and not go to the delivery and item levels. • However, the category profitability probably needs to go down to the item level, probably being available as global totals, branch totals and customer group totals. • Management simply must know what customers are using what products and how handling cost differences, normally branch-induced, affect item profit. 2. Category Profits • Category profits are potentially very misleading. In consumer products, category profits are best looked at by retail territory or retail store. • Thus, even the business manager of the lowest level business unit is looking at several retail territories or retail customers. Both the composite and the territory of the customer must be looked at in making decisions, even at the lowest business unit.
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A Model for Consumer Marketing Support:

(Presented at a private meeting by Tom Brown, President, TB&Co)

CURRENT SITUATION	There is a significant opportunity to adjust marketing programs to deal appropriately with different classes of customers. Retailers are adjusting programs in favor of their most valued customers, offering them special promotions at the same time that they are depriving other customers of promotions. Obviously all consumers are not equal in terms of profitability, since they buy different amounts and types of products. We note that many retailers relate customer value to weekly purchase amount and reward them accordingly. This is a practice not unrelated to a long abandoned practice of giving trading stamps for each dollar of purchase. It is a practice to which we take exception in today's environment in most parts of the world. We believe that retailers must develop and use programs to identify, attract and retain profitable customers based on accurate measurements of customer profitability.
DEFINITION OF PROFITABILITY	We believe that customer profitability must be defined as *the net profit contribution from a customer-shopping visit*. This basically means gross margin of the items purchased less handling costs on those items less the costs associated with processing the customer. Possibly customer net profit contribution per checkout hour is a relevant measure by which to compare customers. Customers can be measured individually for profitability. Some customers are not always identified, therefore profit can be identified by; groups, size of purchase, percent of promotional items, etc. We likewise believe that category profitability must be defined at the net profit from the category considering gross margin of the products sold less all handling, holding and shrinkage costs. Category profit contribution per unit of holding cost or per unit of selling space may be relevant measures by which to compare categories. Categories not meeting targets for profit should either be expanded to sell the full line, contracted to where they can be profitable or eliminated! The retailing challenge is clearly to utilize each unit of selling space for its maximum profitability
THE ROLE OF COST MODELS	Recognizing that customer profit must consider customer and item handling costs, as well as item holding costs, that these costs are very different by customer and item and that such costs cannot come from the accounting system, TB&Co has invested heavily in models for accurately estimating these costs. The result is that TB&Co now has models that can be conveniently plugged into checkout system programs and other systems. Similarly, we recognize that item and category profit measurements must include gross margin less handling and holding costs, and that these measurements should be made *per square meter of retail space needed to sell* the products. TB&Co has developed models to estimate the product handling and holding costs as well as the space requirements to sell the products. Finally, TB&Co has developed an integrated system for processing receipts into the store and sales through checkout. We calculate item handling costs, holding costs, space costs, and customer handling costs. We simultaneously calculate item profit contribution per M2 customer profit contribution by type of customer and per checkout hour.
PROFIT RESEARCH	TB&Co's research indicates that it is extremely straightforward to calculate item & customer profit and that the results show surprising differences in profit per customer (that are only slightly related to level of purchases). We now know that it is possible to re-write the book on programs to attract profitable customers. We believe that retailers can benefit from a test installation of these models in a few stores.

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Where do the Buyers Report?

(By Tom Brown, President, TB&Co - Published in Food Logistics Magazine, October '98)

There is an old argument, not ever settled for some, about whether buyers should report to the merchandising department or to the warehouse. Perhaps we can settle the question.

I will explain, you be the judge.

In the old days, reordering had been thought to be an art.

- Whatever system was used didn't decide what to order; it didn't even make a credible proposal, nor did it have the data to do so.
- The buyers really decided what to order, beholden to no one.

This worked with some degree of success, depending on the skills and interests of the buyer, but it also created problems with:

- service levels;
- orders in excess of reserve storage capacity in the warehouse;
- item counts in excess of available picking slots;
- re-palletizing costs when the slot capacity didn't match the quantity ordered;
- and small, uneconomic order quantities

Thus, thoughtful warehouse people thought that there really was a question about where the buyers reported; that at least the warehouse problems could be better solved if the buyer worked for the warehouse.

But of course merchandising didn't agree, and here are some of the issues:

1. Merchandising would say that reordering decisions primarily concern marketing issues, forecasts and judgments that the warehouse cannot make.
2. Warehousing would say that too many handling problems and extra costs are created by merchandising; that it could look at the same marketing data as merchandising and make better reordering decisions.
3. Certainly in many companies even today, reordering is an art; considerable judgment is still exercised at the time of ordering and there is no systematic way to calculate a correct order. *If this were true in all companies, the question of where does reordering report would still not have a clear answer and in most companies, reporting would still be to merchandising.*
4. And a significant number of companies have split buying into a merchandising function and a reordering function. And a very small number of companies have placed reordering within the logistics function. *But neither solves the problem, as there are still the two sets of interests that must be resolved.*

Let us look at the marketing and logistics interests in more detail

Marketing's (or merchandising's) interests are:

0. getting a good forecast of base demand
1. forecasting of promotions, and even selling them to the stores and consumers
2. seeing that whatever forward buying and diverting opportunities that exist are used
3. dealing with supplier cost increases by negotiating timing of same
4. dealing with new items and selling them to stores and customers

Logistics' (or warehousing's) interests are:

0. dealing with pickup and backhaul opportunities
1. dealing with economic order quantities so as to minimize handling and holding costs, even varying them by season
2. slotting the warehouse to best avoid re-palletizing costs and minimize handling, also by season
3. maintenance of data that relates to physical, life and safety attributes
4. minimizing new item slotting and handling costs
5. developing and maintaining handling costs and parameters used for all economic decisions

But now, in a number of companies, things are better than in the old days. A large number of companies at least have databases with the information to be considered; many of them have systems that can propose an order that considers both marketing and logistics information.

In this scenario we can answer the question of where replenishment buying reports! It reports to neither marketing nor logistics, but to a service organization!

Here is the idea.

- Marketing has a set of computer data files that it must keep filled that correspond to its interests explained above.
- Logistics has a similar set of computer data files to keep filled according to its interests.
- The service organization is to create orders that minimize costs (supplied by logistics) to satisfy demands (forecast by marketing). It is to neither add new information nor make judgments about the information given. Its job is to make economically correct recommendations to satisfy forecast demand. The service organization is measured according to how well it does on services and costs.

If the service organization has a good system that is able to propose good orders automatically from the data tables, then the *daily* job becomes one of simply seeing that the system is working and that the orders proposed are reasonable, and if so, approve them without change.

And the *long-range* job of the service organization is to develop strategies for use by the daily system to do its job, probably using some kind of simulator.

The service organization concept is appropriate for any size of distributor.

But it has special value for the multi-warehouse distributor, one that should have a slow moving warehouse and should be sharing vendor orders among its warehouses.

This type of organization badly needs to decentralize preparing the forecasts down to the level of the organization directly serving the customer/supermarket. Yet it very much needs to centralize ordering in order to properly stock a slow moving warehouse and share orders and deal correctly with logistics opportunities. More on this in a future column.

This service organization job is a very interesting job for a computer-oriented person as currently being produced by our colleges and universities.

And I know about a system that supports this philosophy.

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The Reality of Supplier-Managed Replenishment:

(By Tom Brown, President, TB&Co - Published in Food Logistics Magazine, July '98)

A few years ago, supplier-managed replenishment surfaced as an important answer to industry issues. At the time, successes with club stores and Walmart were cited as reasons for considering supplier-managed replenishment seriously.

This writer has recently heard a Grocery Industry Executive tell his audience that supplier management had reduced inventory significantly and had shortened lead times significantly. He was willing to answer, so I started to ask questions. The thrust of my questions was that if the supplier could reduce lead times and inventory, why couldn't his people do the same?

After some hesitation, the answer was forthcoming. The distributor didn't want to spend the money on quality people or systems so that there was no effort on the part of his people to do the kinds of things the supplier was doing. Otherwise, of course, the distributor could do it. Further, the supplier was willing to spend the money and to do the job.

The same executive said that the coordination with the twenty plus suppliers doing this with them was time consuming and that they couldn't really handle many more suppliers! After all, the distributor does have the right to approve the order and even the ordering strategy; that there were a lot of details to deal with!.

So, on the surface, the case is not convincing for *supplier managed* inventory! But there is more to this story. There definitely is an opportunity to exchange information to mutual advantage. Possibly we need *co-managed inventory*! Consider the following:

1. There is occasionally an issue of manufacturer out-of-stock items. By sending the manufacturer quantities and need dates, the manufacturer could build an order of items that are the most needed, yet available to ship. In principle, Kellogg has such a program.
2. When the manufacturer proposes an ad and the retailer or wholesaler plans the ad, it would be excellent that the retailer or wholesaler would communicate the planning for the information of the manufacturer. The manufacturer could even suggest what the forecast sell quantities would be, improving what isn't always great accuracy and maybe even introducing some fresh promotional ideas?

   It is a joke among merchandising types that they only know how to forecast promotions that they have done before!
3. Clearly the distributor should be doing a lot more advanced booking of seasonal and promotional merchandise and the manufacturer should help in this effort at retail. And this information should be shared.
4. In addition, the distributor should be encouraged to order whatever is needed by booking date, in advance of normal lead times, but not be forced to order in bracket quantities. And then the distributor should be allowed to fill out the orders to truckloads or other bracket quantities with regular merchandise at the normal lead time and should have the tools to do so.

These are very concrete opportunities, but are not to be confused with having the supplier doing the jobs that the distributor could do more cheaply.

It should also be said that club stores and Walmart stores are not the same as supermarkets! These specialized retailers use very large stores and force their sales through a few items. Frequently the merchandise goes direct to the store in truckload quantities. So far these retailers have not gotten deeply into pickups, or consolidations of less-than-truckload quantities. These are normally very important notions, or should be, for full line distributors.

Generally supermarkets and their wholesalers have real tradeoffs to make between product costs, handling costs, cash flow and storage costs - which they would be well advised to do themselves. Generally it is decidedly worthwhile for a supermarket company and its wholesaler to develop necessary tools and expertise for these decisions.

Having said all that, in virtually every manufacturer-distributor relationship there are many benefits from the sharing of information relating to sales and replenishment, each doing its job.

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The Damage Issue:

(Presented at a private meeting by Tom Brown, President, TB&Co)

From its project work, Tom Brown & Company has learned that damage costs are a growing issue throughout the Grocery Industry, and that many suppliers are being confronted by Distributors and Retailers with demands for higher payments.

Many manufacturers are paying their customers for damage at a level of 1 - 2% of sales, and in some cases as high as 4 - 5%.

In general, the attitude taken by most retailers is to make manufacturers pay for all damage, irrespective of cause.

Based on our experience, we know that the rise in damage costs to many manufacturers, perhaps by as much as 25 - 30%, is because the cases shipped to the damage centers include a considerable number damaged by the warehouse and shipped to the store or damaged in the store.

Further, the central damage centers set up to facilitate the handling and disposal of damaged products, are in fact considered a profit center by some customers that look at reimbursement for damage as simply another source of revenue.

In some cases retailers do consider damaged products as more profitable than non-damaged product, when bought, as an example, at 50% of retail and resold for 75% of retail or more.

Further, damage center auditors now have data bases that they are giving to retailers to use in negotiating the highest reimbursement rates from suppliers.

Finally, the trade can easily bring pressure against a manufacturer if not satisfied with damage payments, by discontinuing items, refusing features, making deductions from invoices, etc.

With the present system, there is no direct incentive for the distributors and retailers to reduce damage costs, but, rather, there is a strong incentive to increase damage revenues.

In the opinion of Tom Brown & Company, the situation is challenging for retailers, distributors and manufacturers alike.

- A manufacturer will be paying on an escalating basis, unless it has a reasonable policy concerning for what, and how much will be paid for damage, that is rigidly enforced.
- The retailer, by allowing damage to be shipped away without management verification as to what has happened, is indirectly encouraging damage. The 'evidence' is gone and no one knows the extent of damage or the time taken to handle the damage.
- The distributor has created a profit center that shouldn't necessarily be, and now has a vested interest in keeping it alive.

It is very clear that there are significant policy-level issues in any decision one makes regarding damage.

- The manufacturer's management needs additional facts regarding how to best structure a damage program that will assure the cooperation of trade customers.
- The retailer needs to understand that it is incurring substantial costs in damage that cannot be reimbursed, so damage is not free.

What needs to be done by all parties can be organized into four parts:

1. Make a review of the manufacturer's experience, both from headquarters and account level view. This would involve at least the following:

    - Review existing policies and management efforts to date to deal with damage issues.
    - Review damage payment records, and select high and low cost accounts for the study.
    - Visits with its sales force concerning how they handle damage with good and bad accounts.
    - Are there manufacturer handling and packaging issues that increase damage?

2. Get an inside look at damage as viewed by a sample of retailers.

    perform an on-site audit of customers with the highest level of damage as a percent to sales, and customers with an acceptable level of damage, tracing results from receiving in the warehouse through to retail and the damage centers.

get answers to at least the following:

- What does damage cost the retailer and distributor, including administrative handling and re-handling (of the replacement) costs?
- What does damage cost the manufacturer including administrative and investigative costs?
- What is the net cost/profit to the retailer and distributor after supplier payments?
- How do the retailers and distributors handle, police and otherwise deal with damage internally?
- What is the attitude of retailers and distributors concerning damage? Does a permissive attitude correlate with damage provoking methods, or equipment, or damage tolerant supervisors? Are there retailers and distributors with a non-permissive attitude that have significantly lower damage?

3. Make a comparison to other suppliers' policies, experiences, and damage payment levels to customers in different parts of the country. Find a reasonable level of damage
4. Develop recommendations for methods changes, policy changes and policy enforcement.

- Consider the pros and cons of damage allowances versus damage claims.
- Consider retailer/distributor policies allowing returns only when damage is noted on receipt.
- Consider asking manufacturers to remove the cost of damage reimbursement from product cost, attempting to minimize damage at retail and then marking up retails for actual damage experience.

We believe that a practical damage policy can be followed that will stop the growth of damage, and actually reduce damage costs to all parties.

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Design the Perfect Wholesaler:

(Presented at a private seminar by Tom Brown, President, TB&Co)

Wholesaling has been somewhat maligned recently. It is thought to be obsolete, unresponsive and charging too much. Wholesalers make considerable money by not passing on discounts given by suppliers-which are kept as "inside" profit!

It is evident that change is happening and wholesalers are re-inventing themselves. Some wholesalers may be on the leading edge and even part of the solution to ECR in 2000!

It is beginning to be clear what the perfect wholesaler might be! If you are a retailer, here is what to look for. If you are a wholesaler, here is what to try and be!

THE PRINCIPLES

The over-riding principle is that the wholesaler must offer every reasonable service to allow the retailer to be the most competitive and most efficient possible.

To do this means that:

1. The wholesaler must strive to handle 100% of the retailer's product needs, but not necessarily stock them. The retailer, in turn must strive to buy its needs through a single wholesaler
2. The wholesaler must be willing to price according to actual costs and value added, no longer marking up purchase costs by a percentage.
3. The wholesaler must provide tools and incentives for the retailer to be 100% efficient in utilizing the distribution system of the wholesaler.
4. The wholesaler must provide the retailer with information external to the retailer that is necessary to allow the retailer to gauge its competitiveness and adjust same.
5. The wholesaler must support the other information requirements of its retailers.
6. The wholesaler should offer lower pricing for the retailer willing to manage certain business risks.

HANDLE 100% OF NEEDS

It is clearly inefficient that several wholesalers handle the needs of a retailer. This gives rise to two considerations.

1. The pricing of a wholesaler should offer the retailer an incentive to give all the business to the wholesaler. Thus delivery charges should be by load, not by case, with a higher relative cost for a half load than for a full load. Thus the retailer working with two wholesalers would pay significantly more for delivery, and the retailer would have more inventory and holding costs in the store.
2. The wholesaler should be willing to provide any item the retailer wants. Thus wholesalers should deal with other wholesalers, slow moving specialists, food service distributors ...literally anybody that could supply a needed item at less than the handling and holding cost that the wholesaler would have!

   To do this, the wholesaler must be prepared to handle and deliver items re-purchased from other wholesalers and distributors - and charge only for his value added handling, holding and delivery!

COSTS AND VALUE ADDED

The wholesaler must be willing to charge simply for the out of pocket costs of products supplied plus the value added in getting products to its customers.

This means that the wholesaler would pass on its true purchase costs less allowances and credit for payment terms. However the wholesaler would have a working activity-based costing system to identify and charge for the true handling and holding costs of items. Thus, for the average $15 per case item, there might be a 60 cents credit for payment terms, but 30 cents would be added for handling and holding. Then order filling and delivery could be $300 to $500 per load.

However:

slow movers cost more than fast movers

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- pallets of items cost less than individual cases
- cross dock items cost less than stocked items
- small deliveries cost more than large deliveries
- peak demand deliveries cost more than off-peak demand deliveries
- conveyor deliveries cost more than pallet deliveries
- delivery waiting time has a cost of both driver and equipment time
- forward buys held for days or months cost more than new forward buys
- different items have different payment terms

If the wholesaler takes the risk of delivery size the $300 to $500 could be stated as a cost per case (say 30 to 50 cents) based on the average cases per load. But if the retailer is willing to take the risk of delivery size and tries to average 1500 cases per load, the cost per case would drop to 20 to 33 cents per case, which is a significant 10 to 17 cents per case savings!

INFORMATION TO BE COMPETITIVE

The wholesaler must supply the retailer with all necessary information to be competitive to its consumers. This means, at least:

1. Competitive prices for all types of retailing carrying the products that the retailer carries. It is easy to forget that there are club stores, mass merchandise stores, drug stores, flower shops, gasoline stations, convenience stores, mail order and restaurants that sell the products of the retailer. It is a daunting job to gather competitive prices. But remembering that one only does significant volume when selling at or below market, these competitive prices must be known to the retailer.

   Since the wholesaler generally services a number of retailers that would be interested in the same retails, it is better that the wholesaler collect them or at least collate them and distribute them.

2. Recommended retail prices and assortment to best meet margin objectives, or better, a wholesaler supplied system to calculate retails and recommended assortments under the retailer's control in its offices.

   And the system should feed the retailer's scanning and the wholesaler's billing system. Capture and use of DSD movement, handling costs and margins for assortment and pricing should be included

3. Comprehensive scanning support, including price communication, reconciliation of movement into and out of the store and control of yields from manufactured products, should be offered.
4. Benchmarking data on sales, movement and share of market.

It is critical that retailers know their share of market on a category by category basis. With these data the retailer can decide to change prices and or assortment. Although it is not possible to perfectly measure market share, data bases such as IRI, Nielsen and Supermarket Business Annual Consumption Survey give relevant information.

In addition, the wholesaler should make comparisons available among its own retailers on a category by category basis. Data supplied should include data by brand.

TOOLS TO BE 100% EFFICIENT

At least the following should be provided to help the retailer to be as close as possible to 100% efficient in assortment sales and profits. This includes:

1. *Very flexible ordering:* (For example)

   - Ordering products discovered on the internet, ordering from scanning, ordering from inventory reports, ordering to maximize cash flow and stocking labor utilization of the retailer.
   - Electronic order guides (perhaps on the internet) for a wide assortment of items, and there will no intent to limit the retailer to the wholesaler's printed order guide.
   - Tools to 100% fill shelves on Monday for greatest efficiency, but will fill them according to needs and not make them totally full until the weekend -- assuming that shelves are not over-allocated.

2. *Capability to build full trucks of needs automatically.*
   Merchandise should be added in off peak periods and limited in peak periods so as to equal the capacity of the truck and the workforce to stock the merchandise.

3. *Capability of cross docking to deliver anything the retailer sells.*
   Much traditional direct store delivery merchandise could come this way in many areas of the US.

4. C*apability to optimize assortment.*
   Tools to help the retailer to be 100% efficient in assortment, sales and profits per ft2. These tools should include a simplified high-level space allocation program with all product physical data supplied to run it.

TRADE OFF PRICING AND RISK

The retailer and wholesaler and retailer need to work at sharing risk, placing the responsibility with the side best able to manage it. For example:

1. As mentioned the risk of filling the truck (or reserved portion thereof) is best done by the retailer, who should get a lower freight charge paying by the truck than by the pound.
2. The risk of which items sell in an assortment of flavors should be managed by the retailer, who then should be able to buy the fast moving flavor of soup cheaper.
3. The risk of running the warehouse should obviously be taken by the wholesaler. The retailer should be charged based on a standard cost for handling and holding, where the wholesaler wins when the item is turned faster than standard and loses when it does not.

WHAT DOES THIS MEAN?

1. Base costs of food will be cheaper. Especially fast moving items and items with good handling characteristics, favorable purchase allowances and payments which the distributor can sell at close to cost.

- But similar items may not have the same exact cost. Green Jell-O could cost more than red Jell-O. Tomato soup may cost less than bean soup. So, as a retailer, you will need to think even harder about the assortment you offer.

2. Delivery charges will be significant. There should be delivery charges per order, varying between peak delivery and off-peak delivery. Pallet deliveries to a dock will be cheaper than conveyor deliveries or lift-gate deliveries.

- These differences will make the retailer really think about how to bring products to his store, because there will be loading and unloading charges by pallet, case and weight. The retailer will want to have his unloading and backroom very well organized.
- There will be late order charges reflecting actual costs.

3. It will be very economical to have the distributor cross dock and deliver, and the cross docking charge will be small.

- Generally the wholesaler will learn to charge the retailer based on value added, not a percentage of purchase cost.

4. The distributor will invest in information that the retailer values and will pay for.

TRANSITION PROGRAMS

Certainly some retailers will want their wholesaler to offer a traditional program of either delivered prices or cost plus a negotiated percentage fee that does not consider differences in product holding and handling.

The wholesaler should offer such programs, which would be a higher cost program than the new type of program discussed. They will continue to appeal to retailers in less price competitive situations or situations where the potential savings in delivery costs are small.

The wholesaler will need to know differences in costs to serve different customers and maintain parity among customers.

AND AS A RESULT

It just could be that the wholesalers will embrace these ideas faster than the chains, quickly making them more efficient distributors than their chain brothers.

But if you are either a wholesaler or independent retailer, you must promote this!

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The Reality of Adapting Your Warehouse to the Future :

(As published in Food Logistics Magazine, by Tom Brown, President, TB&Co)

With current industry emphasis on selling rather than buying, management has been lulled into thinking that the warehouse is being de-emphasized and needs little attention. This is far from the truth!

The realities are: that low stock could mean more handling and more need for efficiency; that most warehouse have layouts that are oriented to stocking items that are not particularly efficient either. Most warehouses really need to change!

For example: reserve is not well integrated in the layout; forklifts and order selectors contend for workspace in the same aisles; there is still a lot of repalletizing at receipt; there is insufficient slot variety to accommodate manufacturer pallets or keep slots full or prevent double stacking of pallets.

Cross docking is slowly arriving with emphasis on less storage. Much of the recent investment in the warehouse has been made in software to control reserve space, assigning it on putaway and finding an item for replenishment, all of which may be less important in the future..

There has not been very much in re-racking with the exception of case flow rack to absorb growth in variety.

These would be my assumptions for future planning:

1. Expect growth in cross docking, especially the flow through or mailbox type.
2. Expect no free repalletization on receiving; incoming pallets had better fit!
3. Expect less forward buying but more incentives to take in seasonal products. So in balance less reserve
4. Do not expect relief in total assortment. You can only make storage go down by regional/third party stocking or cross docking..

And here is what I would do:

1. Construct a store mailbox area for flow through cross docking. I would strongly recommend pallet flow rack for this purpose.
2. Create 3 - 4 different slot heights in your warehouse. Start with truck height, then 2/3 truck height and ½ truck height. Perhaps consider some 1/3 truck ht. as well.
3. Put in case flow rack to replace a lot of the 1/3 ht. and ½ ht. slots. If possible configure case flow rack as floating slot and have enough case flow that you do not use reserve for merchandise assigned to case flow except when storing forward or seasonal buys.
4. Back off on some of the software investments, except for software to do floating slot.
5. Install floating slot for general use.
6. Consider pallet flow rack for fast moving items.

And here is what I'd do if I had some more capital to spend for a stunning achievement in productivity!:

1. Install a belt conveyor for selected items that are medium movers or less, medium case sizes or less and conveyable. We have seen very good results with an overhead mezzanine and a single belt, which uses space that is otherwise inefficient space.
2. And finally, I wouldn't take any chances on the buyers, or, worse, outsiders, ruining the efficiency of the operation. I would have the replenishment buying work for the distribution function so that they are in charge of service level *and* efficiency level.

It is interesting to read recently that TESCO, a very aggressive UK chain that has even subcontracted out it warehouse operation, and which is a champion of a no stock warehouse, has announced an investment in warehouse fixtures and equipment for productivity. They certainly do not believe that no stock means no handling.

It would be great to have a dialogue with interested readers. And I would happily report on that dialogue in a future issue.

Email us with your questions or comments: marketing@tombrownco.com

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The Systems Opportunity:

(Presented to a Private Seminar by Tom Brown, President, Tom Brown & Company)

Many companies in the grocery industry have barely adequate systems!

On one hand, store ordering, warehouse billing, procurement, payroll and payables do the job as they must. And a number of companies have warehouse management systems developed by an outside software company that are quite good. And there are some very specialized software packages on PCs that are quite good

On the other hand, there are huge, unmet *strategic* opportunities for improved procurement, pricing, asset management, human resource management and marketing to customers, that all require specific systems. Also integration of data across applications is non-existent, user friendliness is mixed, the decision making capability is nil, reports are fixed paper reports, and integration with PCs is weak or non-existent. These shortcomings often prevent users from analyzing and using information to make proper strategic and tactical decisions.

Let us explore three of these points a little more.

Strategic Opportunities

It is now possible for systems to dramatically improve the quality of *procurement* to minimize inventory and cost of product in a manner that does not increase the cost of operation. This requires that the procurement system actually make decisions that are not changed by the buyer. In turn, doing so requires that the data be available on all the costs of each procurement alternative and that the system be programmed to consider all alternatives. We have established the feasibility and benefit of doing this. We know that it can lower cost of merchandise by 2% or more.

It is also possible for systems to dramatically improve the *retail profit contribution per ft2*. Profit contribution means gross margin plus terms and rebates and less handling cost x product movement -- and a system to develop this information; per ft2 implies a system to tell us the space that is needed for each item. Armed with this information, there are now two concurrent decisions to be made. What items do we carry and what price do we charge? We have seen this approach increase profit per ft2 by 25% and more.

Marketing to customers is another strategic opportunity. It involves: 1) developing knowledge about the customer so that the customer can be placed in an appropriate marketing group; 2) offering members of that marketing group appropriate benefits, programs or merchandise that they would possibly not be exposed to otherwise; and 3) offering these programs only to customers that are deserving of them. Generally this means:

- getting certain information about the customer from the customers themselves
- recording purchase information for the customer at the point of sale, and totaling it by various customer groups.
- analyzing the response to offered programs by group or customer
- calculating customer profitability, individually and by group.

These are obviously system intensive techniques. We are hearing that these techniques can increase store profit by 25%!

User Information

Management and staff on the front lines are in a perfect position to use information. But they lack the time to dig it out and integrate it. We suggest that there is a new concept of a *management workstation*. This generally means a PC hooked up to a network that displays all relevant information with creative displays and has a package of analytical tools for the user to use.

For example, a retail store workstation would display financial information, sales and profit contribution by item and customer. The user would be able to view the results on a screen from worst to best. The user could call up information on planned new items or promotions, place an order, and review categories for item discontinuance, price changes or space realignment. The workstation would also have database and spreadsheet capability. Presumably there would be an automatic ordering capability for both the warehouse and DSD vendors and the workstation would be displaying information on what is being ordered.

Is there one system that will do this?

Unfortunately the answer is no. Today' distributor will need to assemble an appropriate system, probably embedding analytical

and decision systems in a workstation design.

Technology has changed so that faster better cheaper information systems are available. Client server is arriving, which is the vehicle to support our workstation. And it is well known that SAP software, now highly integrated, is available. But is it the best alternative? Is it cost effective?

There are, of course, many questions. But that should not discourage you from looking for the answers. And it should not blind you so that you take a misleading or too simple solution.

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Strategic Systems Consultation/Implementation	
OVERVIEW	Tom Brown & Company offers exceptional services in its *Systems Strategy and Implementation Consulting Practice*. We now offer assessment of information needs, solution determination, evaluation of packaged software alternatives, and full implementation support. We believe that this is a particularly important time for companies in the grocery industry to embrace strategic systems opportunities.
EXPERTISE	TB&Co has expertise in the following areas: • Business Strategy (enabled by new information technology). • Information Support - as required by a business strategy. • Grocery industry best information practices. • Specialized grocery industry decision support systems. • Client server strategies and Internet strategies • SAP application and configuration
OPPORTUNITIES	Many companies can benefit from the following areas: • Upgrade systems to embrace either the new technologies and/or industry best practices. • Create carefully planned strategies to face changes for the year 2000. • Improve management decision support. Most companies' management information is limited by fixed paper reports and virtually no analysis without programming. • Increase customer service by streamlining transaction processing. Many companies have been limited by cumbersome batch processes which either limit customer service or increase cost of same, or both. • Utilize packaged software. The complexity of today's technology and business needs mostly precludes an elaborate in-house development approach. • Cut packaged systems cost by 1/3 to 2/3 through proper organization and business process design coupled with proper systems integration.
CONTACT US	One of our partners would be happy to offer a preliminary consultation regarding your systems opportunities.

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Buying and Inventory Management Audit	
OVERVIEW	Many *distributor*s have the challenge of not knowing if their inventory is at the optimal level and if buying is being done in the correct brackets, with correct re-order points and economic order quantities. Distributors also have the challenge of buying from the best point of origin, with appropriate order sharing and with the correct stocking points within the distributor's network. Most *wholesaler*s are under pressure from their retailers due to manufacturers promoting directly to retailers, who in turn create demand on the warehouse without giving advance planning. TB&Co offers an audit service to both distributors and wholesalers that results in a full report with practical recommendations that are tailored to the given situation. Full supporting data is presented so that work can be quickly started on realizing opportunities and correcting any problems. We are prepared to implement all recommendations.
TYPICAL RESULTS	We usually identify 10 to 100% excessive inventory levels and 20 to 50% excessive warehouse handling costs and show how to eliminate the excess costs.
APPROACH	Tom Brown & Company has developed a unique program that analyzes data at the item and vendor levels to develop a reference forecast, and inventory budget and an analysis of economic order quantities, lead times, safety stocks, re-palletizing and correctness of ordering brackets. Tom Brown & Company has also developed a sourcing simulator that analyzes item and vendor levels versus vendor programs to determine if sourcing, order sharing and stocking points are correct. 1. We combine use of the software with interviews to determine the functionality of the buying system in use, degree of buyer acceptance of recommendations and reasons for change, accuracy of buying system setup and problematic business practices. 2. On an optional basis, and often recommended, we look at the degree of integration between buying and the warehouse on such issues as, workload balance, repalletizing, slotting and ordering to minimize use of reserve stock. 3. Final report is created with full supporting data. 4. Implementation of recommendations following management approval.
PAST CLIENTS	We have performed this service for Delhaize, Meijer, Holiday Companies and Nash Finch.
CONTACT US	One of our partners would be happy to offer a preliminary consultation.

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Warehouse Audit	
OVERVIEW	Many companies can benefit from a short, objective audit of their warehouse by Tom Brown & Company. We usually look at the following practices within the operation, which from experience have great effects on the efficiency of the operation: Productivity, Slotting, Vendor Ordering and Customer Ordering. It is our observation that nearly all warehouses can be made workable and efficient by methods and slotting changes, and by not putting too much in the warehouse; that these changes can be almost always accomplished.
TYPICAL RESULTS	Most audits can be completed in a few days of our time, assuming the availability of normal data from the warehouse being considered. It is likely that a 10-20% reduction of costs can be attained with investments that are recovered in 2 years.
APPROACH	**Productivity Practices** 1. A model is constructed of what productivity levels could be by identifying handling practices, including methods, equipment and travel distances. 2. Data is input into a worksheet that gives us handling standards for both inbound and outbound. 3. Both receiving and shipments are then analyzed to get cases, pallets and pounds inbound, cases pallet and pounds outbound. 4. The model is now applied to these figures to get earned hours. 5. We compare both the model factors and earned hours to industry norms and to the actual hours spent doing the work. 6. Results can be compared to see if move distances are too long or forklift loads too light and what each costs. 7. Finally we can also see if your present performance is more or less efficient than a typical industry warehouse. **Slotting Practices** In slotting practices we consider mix and location of slots. We recommend changes in mix and location of slots, as well as changes in how items are assigned to slots. We estimate the cost of making the changes and the estimated gains in storage capacity and theoretical efficiency. **Vendor Ordering** 1. We evaluate the order quantities and frequencies generally used by the buyers with our economic order quantity model. 2. We evaluate the safety stock maintained with our safety stock model on a sample of items. 3. We evaluate promotional ordering practices and left over promotional quantities along with forward buying against a model. 4. Finally, we estimate the savings in handling costs, inventory and storage space consumed from going to recommended ordering.

	Customer Ordering 1. We look at customer order sizes, order times and order frequencies versus reasonable industry practices. 2. We recommend changes to ordering times and frequency by customer to create fuller trucks and reduced peak load demands. 3. We look at inbound scheduling that might have an effect on extra shipments being required due to late arrival of promotional goods. 4. We look at charging practices that might give the customers an incentive to order fuller trucks and be receptive to limiting shipments to full trucks only. 5. Finally, we estimate savings in the warehouses and in transportation from our recommended changes.
CONTACT US	One of our partners would be happy to offer a preliminary consultation.

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Store Evaluation	
OVERVIEW	TB&Co's experience has shown that many stores are underperforming in sales and profit by 50 to 100%! The reasons are usually some or all of the following: • Details seen by customers, but missed by managers, make some customers stay away from the store. Some of the most important details are: cleanliness and appearance; quality of perishables; out of stocks; and excessive lines at checkout. • Poorly managed promotions. Promotions make a big contribution to sales and profit. • Poorly managed pricing - including lack of competitiveness on sensitive items and not charging enough on hard to find items or infrequently purchased items. • Poorly managed assortment and space. Too many products that do not turn a minimum profit per ft2 per week! • Poorly managed expense. Whether supplies, shrink or labor, you must keep costs under control! Tom Brown & Company offers the store evaluation program to its clients in two ways. First, by totally implementing the diagnostic program ourselves in stores selected by its client. Second, by selling the program package to the client and training the client in its use.
TYPICAL RESULTS	Most evaluations return the investment in less than six months.
APPROACH	Tom Brown & Company has developed a unique program to rapidly evaluate a supermarket in all five aspects. We do this by: 1. Reviewing store sales and financial data by department. 2. Observing the store - with an experienced person with retail executive and consulting background. 3. Gathering and analyzing merchandising and operational data within the store. 4. Collecting data on customer characteristics and customer perception of the store. 5. Creating precise and accurate reports to management as to which of the five aspects are affecting profits and by how much. 6. Recommending specific actions and priorities, along with generating projected results from taking the actions. If desired, TB&Co will manage the implementation of any program proposed.
CONTACT US	One of our partners would be happy to offer a preliminary consultation.

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Perishables Audit

OVERVIEW	Today's realities mandate tight control over produce (and meat) at warehouse and retail. We hear complaints from warehouse and retail about the other, but in reality both can do a better job. In addition, we see excessive shrinkage and markdown that sharply produces profit, yet is hidden from management by the costing and inventory procedures used.
TYPICAL FINDINGS	**In Retail** 1. Over ordering from the warehouse. 2. Product not dated by date of receipt and not rotated correctly. 3. Over stocking of display racks and cases. 4. Insufficient culling and rotation of product in displays. 5. A retail mentality to fill racks and displays in the morning, for the day, instead of just in time. 6. Retail untrained in proper handling of products. 7. Retail unaware of price-quality relationship being purchased by warehouse, and consequent ordering and handling strategy. **In the Warehouse** 1. Far too little inspection of product as received, and inefficient, unsophisticated inspection procedures without using sampling theory. The result is problems later in quality shipped. 2. Far too little inspection of product before being shipped. 3. Willingness to accept returns from retail. This should rarely be done! 4. Willingness to write retail credits instead of taking an aggressive, proactive approach to identify and solve problems at retail or wholesale. Credits should be used as a last resort. 5. Not measuring the amount of markdowns given to retail to balance stock and seeing the true problems. 6. Not having an accurate enough forecast to purchase against. 7. Using a percentage pricing/service charge concept that promotes inefficient ordering from retail and inefficient deliveries.
APPROACH	Tom Brown & Company has developed a unique program to rapidly evaluate perishables. We do this by: 1. Visiting representative stores 2 - 3 times, reviewing product quality inbound, in cooler and on display and work procedures. 2. Visiting warehouse several times, reviewing product quality inbound, in stock. Review ordering, inbound inspection, rotation and selection procedures. Review records of markdown If desired, TB&Co will manage the implementation of any program proposed.
PAST CLIENTS	Tom Brown & Company has helped Delhaize, Fleming, Furrs and Holiday Companies in these areas.

CONTACT US	One of our partners would be happy to offer a preliminary consultation.

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TB&Co Buying System

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OVERVIEW	A comprehensive modular system to optimize product cost and inventory for any number of distribution centers. Adapted to dry and perishable food products and supplier programs. Produces orders that normally need no buyer modification. May be customized to platform and specific user needs.
WHAT IT CONSIDERS	• Up to 2 years' history by week, including promotions. • Item costs, supplier minimums, maximums and transportation costs for up to 8 alternative buying programs. • Item carrying costs and physical handling costs. • Available deals from suppliers and planned promotions. • Seasonality and temperature effects. • Available space and money. • Handling costs by warehouse area. • Opportunities to combine orders for transportation savings. • Opportunities to choose cheapest source (branded, private label).
STANDARD FEATURES (partial list)	• Optimum forward buying for cost increases, deals. • Optimum safety stock (proprietary model). • Economic order quantity considering all relevant costs (proprietary model). • Buying ahead to earn quantity discounts by item. • Automatic fill-out of advanced seasonal/promotional order to full order prior to delivery. • "Paperless" reporting and analysis. • Forecasting by customer. • Automatic promotional forecasting.
MAIN COMPONENTS	1. Weekly forecasting program. 2. Daily vendor review program 3. Daily optimum order building program.
BENEFITS	• Lowest possible inventory, carrying cost, typically 15 - 20% less. • Lowest physical handling cost, typically 1/3 less on inbound. • Fullest inbound trucks, due to cube and weight loading. • Lowest delivered product cost, typically 1% less. • Optimum forward buying. • Fully automatic consideration of all supplier programs • Minimum time (and skill requirements) for buyers to re-order well. • Minimum requirements for computer resources.
OPTIONAL COMPONENTS	1. Inventory, warehouse planning and slotting module. 2. Product Profit and Customer Profit.
SUPPORTING SERVICES	• Assessment of needs. • Customization of software for functionality and hardware platform. • Optimum setup for all suppliers. • Development of negotiation strategy for suppliers. • Buyer training.
USERS	AG Maine, Affiliated Little Rock, Laurel Grocery, Delhaize and Battard.

TB&Co - Item and Store Profit System for Wholesalers
"The Wholesale Profit Leak Detector"

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OVERVIEW	Tom Brown & Company has developed a program to continually monitor item net-profit contribution and net-profit contribution by store for wholesalers. It considers all costs of handling and holding. It is designed for use by general management, category managers and operations management of a wholesaler. Usage to date shows significant profit improvement.
UNDERLYING MANAGEMENT PHILOSOPHY	Optimization of retail profits is created by optimizing every customer's profit contribution per unit of value added services rendered. Profit contribution must consider the net profit contribution of each item the customer buys from the wholesaler, the fees the wholesaler receives and the cost of selecting orders and delivering to the customer. This can only be done with the requisite information. Because it is not feasible to maintain records of actual handling costs by item or costs to handle an order, we use the idea of standard costs to handle the item based on its physical characteristics and purchase quantity and standard costs to select and deliver to the customer based on order size and delivery route. Sales managers are to manage pricing and delivery frequencies using this information assuming that the warehouse and transportation operate with the correct handling cost, inventory and driving cost. Operations is to use the information on standard cost, inventory and labor to see that they are operating with the correct inventory, driving miles and labor.
SYSTEM ELEMENTS	Two measurements of profit contribution are made. Item profit contribution and customer profit contribution. Item Profit contribution is defined as gross margin (wholesale selling price less purchase cost) plus deals and payment terms credits, less warehouse handling and holding costs. Warehouse handling includes receiving, put away, slot replenishment and transfer to the customer's pallet. Warehouse holding includes the cost of money and space until the item is sold. Customer profit contribution includes the item profit contribution for items purchased less order selector travel, loading, driving and unloading at the store, plus fees charged the customer. Handling costs are calculated for item handling and customer handling based on item characteristics (cube, weight, pack, pallet), warehouse characteristics and store characteristics. The warehouse characteristics are obtained by measuring and completing a questionnaire by warehouse section; the store characteristics are obtained by measuring and completing a questionnaire by store department. Driving costs are calculated based on planned or actual routes to deliver. Costs are automatically shared among stores.
SYSTEM FUNCTION	• Calculations are made weekly using the latest billing, an item master file and an optional trip recorder inputs from the delivery trucks. • Profit contribution is calculated by item and for each delivery stop. Summary records are created for each store, customer group (or region), each merchandise department and for the company. Actual costs are compared to standard costs at the company level by operation and at the route level. History is kept for each route, customer and stop. • Error screens are supplied so that distortions in profit due to billing and other data errors can be corrected. • The system runs on a network in windows with an appropriate data base. • The setup is a one time activity. It involves completing questionnaires within the system which automatically generate the required coefficients.

TB&Co - Product Sourcing Simulator

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OVERVIEW	A comprehensive system to make and maintain on-going comparisons of alternatives for procuring products at lowest cost, considering alternative supplier plants and distribution centers; shared purchases with other warehouses; shared pickups with other vendors on same truck.
TYPICAL BENEFITS	• A 1-5% lower cost of product on the basis of ready to sell costs. • $500 to $2000 savings per truckload ordered.
WHAT IT CONSIDERS	• Movement forecast for each item and warehouse. • Item groupings that be switched from DC to plant per vendor programs. • Transportation costs and backhaul allowances to each destination warehouse, considering extra mileage to accommodate shared ordering, if any. • Vendor-required purchase minimums by item at plant and at distribution center. • Rehandling and added holding cost when order is shared among multiple warehouses. • Added transportation and handling when truck is shared by multiple vendors. Recommendations are made based on lowest ready to sell cost, which includes product cost, net transportation cost, handling cost and holding costs.
APPLICATION	Works for any wholesaler or chain warehouse. Works best when shared ordering among warehouses can be considered, whether as a single company or a voluntary ordering group of warehouses. The system runs on a PC Windows 95/NT Platform. Most data can be downloaded from the company buying system. Compatible with Tom Brown & Company Buying System, although its use is not required.

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TB&Co - Customer Service Scheduling System

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OVERVIEW	A comprehensive multi-platform program to support 100% efficient scheduling and productivity evaluation for checkout and other customer service.
BENEFITS	1. Scheduling that is totally responsive to time of day activity. 2. Much greater accuracy of scheduled hours than with other approaches. 3. Increased customer service capacity and/or reduced labor cost. 4. Total credibility at retail level.
WHAT IT CONSIDERS	• Physical characteristics of checkstand, including unloading, scanning and bagging characteristics. • Physical demands of customers for services, such as carryout, coupons and checks. • Hourly (or more frequent) readings of customer counts and transaction sizes (items, purchase value) for last 'x' weeks, if possible, by customer profile (for example, regular and express). • Labor standards per customer and item for primary and secondary service providers (cashier, bagger) and any possible shared work. Labor standards per shift and by day for other work.
MAIN FEATURES	1. Automatically calculates a high average and low forecast by day for user selection. 2. Calculates required hours to meet a specified level of customer service for each forecast. 3. Adjusts mix of baggers by hour to minimize productivity of cashier, and deal with limitation of available registers. 4. Recommends employee shifts to meet required hours that are subject to minimum and maximum shift lengths according to policy. 5. Analyzes and shows available hours where time is likely to be available for fixed tasks or front end stocking work. 6. Allows interactive adjustments of employee shifts and/or assignments of employees to shifts. 7. Calculates earned hours after the fact from customer and transaction readings, to feed weekly earned versus actual hours analysis. 8. Automatic identification of holiday weeks for exclusion from regular scheduling and inclusion in holiday scheduling.

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TB&Co - Space Allocation System

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OVERVIEW	Tom Brown & Company has developed a streamlined space allocation system for nearly instant use on a category by category, store by store basis. It is oriented to giving the user the correct amount of space by item and category, not in drawing planograms or necessarily resolving placement issues. It can follow a company wide categorization and item sequencing scheme, yet eliminate items that are not justified for the available space in a store.
BENEFITS	• In $200,000 store with 60% grocery, $25,000 sales increase (assumes new categories). • $5000 margin increase. Typical space availability increases are shown below:

Category	Existing	Optimum
Cereal	72 ft. (depth of 28 in.)	44-60 ft. (depths 22-28 in.)
Bath Tissue	32 ft. (depth of 28 in.)	24-30 ft. (depths 28-36 in.)
Dry Soup	12 ft. (depth of 22 in.)	6-9 ft. (depths 19-28 in.)

WHAT IT CONSIDERS	1. Every item carried must have enough space for a minimum level of service, irrespective of profit. If we carry it, we have it in stock! 2. If space is tight, we use backroom stocking on items where space saved per labor $ is the greatest. 3. If space is available, we give space to increase the service level for items for the highest profit per ft. 4. We use a fixed presentation sequence of items across all stores. 5. We allow adjustment of shelving ht, width, depth to minimize linear feet needed. It can be done automatically within parameters agreed to. With it the user can virtually always have tight allocations in multiples of 4' or 1M or other module. 6. We provide for automatic adapting of facings to individual store's movement and shelving
TYPICAL APPLICATION	1. Obtain movement and measurements data for test store categories that are most suspect. 2. Develop shelf sequence model that meets needs of merchandising. 3. Run model to optimize, developing best shelf heights and depths 4. Work with merchandisers to develop plan for space created. System runs on a network or stand-alone PC with Windows 95 or NT.

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TB&Co - Warehouse Planning Program

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OVERVIEW	The Tom Brown & Company warehouse planning program is designed to fill three needs: 1. Maintenance of optimum slotting in an existing system of warehouse racks or slots. 2. Evaluation of slotting requirements and alternative layout strategies for a new or remodeled warehouse. 3. Provision of sufficient data for a chosen alternative to be able to make the layout and physically erect the rack. It does its work by calculating which items should be in which slots to maximize space utilization and minimize handling costs. It supports and chooses among conventional racks, floor stacks, PIR, floating slots, pick to belt, case flow, pallet flow and hand stack.
TYPICAL BENEFITS	1. 20% fewer pallets handled, with 50% less moves per pallet. 2. 25% less travel. 3. 25% greater selecting productivity. 4. 25% less retail handling.
INPUTS	1. Item characteristics, including dimensions, palletization, stackability, packaging, vendor, product family and movement history. 2. Vendor characteristics, including order minimum and lead time. 3. Slot characteristics to be evaluated, including bar heights, slot capacity in pallets as a reserve and picking slot and case flow rack dimensions. 4. Parameters including racking costs and handling costs.
PROCESSING STEPS	1. Create a forecast movement and movement standard deviation for normal movement, excluding promotion, or use external figures. 2. Calculate item economic order quantity and safety stock, or use external figures. 3. Decide optimum palletization or optimum layers, or use existing palleteization, or use supplier palletization. 4. Exclude items from analysis in a slotting alternative based on weight, size or package type, as for belt picking. 5. Assign items to case flow rack based on travel savings over fill time. Calculate optimum number of flow lanes for no double handling of pallets. 6. Find slot type with least number of slots used for item. 7. Calculate number of slots needed for slot type chosen to accommodate pallet and safety stock. 8. Summarize slots required by slot type per organization concept used, for example, vendor, category and package type.
OUTPUTS	1. Parameters of run, including slot types allowed. 2. Detail by item of forecast, cycle and safety stock needed, palletization used, slot type/number slots assigned and budgeted inventory. 3. Summary of slot requirements by type, movement in cases, cubes, weight and pallets; actual vs budget inventory by product group and selected organizational concept. 4. Summary of all of the above for the entire warehouse.
USE OF OUTPUT	1. Check item data against slot types to get need by type versus availability by type. 2. Check that bar heights used are reasonable for product mix. 3. Use group summary data to assign product groups to aisles and locate groups relative to front, back and doors.

	4. Use item data to physically assign items to slots if re-layout. 5. Use item data in exception report to manually re-slot. 6. Use safety stock and cycle stock as a check on buying.
TYPICAL PHILOSOPHY	1. Organize by package type within family group in order to be able to select shipable pallets that reasonably follow families. 2. Use pallet total and cube total movement to optimize location of package/family groups for minimum in bound, outbound travel. 3. Use a correct mix of slot heights within a package/family to use space efficiently and not force extra pallets to be handled. 4. Use manufacturer pallets, when justified, and otherwise use manufacturer layers.

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TB&Co - Retail Labor Planning System

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OVERVIEW	A comprehensive, modular program to support 100% accurate forecasting, scheduling, productivity evaluation and handling cost reduction for retail type handling.
BENEFITS	1. Scheduling that is totally responsive to sales. 2. Increased customer service and, frequently, increased sales. 3. Labor and product handling cost reductions. 4. Input of merchandising to plan sales to use available labor. 5. Total credibility at retail level.
WHAT IT CONSIDERS	• Physical characteristics and required handling or processing of each item sold and each retail unit's exact product mix each week. • Each retail unit's unique situation (distances, unloading, equipment). • Last week's movement for performance evaluation and next week's movement (or both) for showing what labor should have been used or should be used.
MAIN COMPONENTS	1. Earned hours system using warehouse billing, ordering, DSD receiving, scanning, customer transactions and HQ transactions. 2. Forecasting system which develops transaction and item forecasts by store by week and schedules required work by day. 3. Front end/service department scheduling to forecast regular and express customers by time of day and develop optimum shifts. 4. Separate standards for item specific handling (gives 30% of hours), bulk case handling (45% of hours) and fixed tasks (25% of hours), with questionnaire-driven, automatic standards development by retail unit.
OPTIONAL COMPONENTS	• Decentralized retail unit level forecasting system. • Optimum ordering system (multi-vendor or single warehouse ordering) to minimize inventory and handling. • Made-to-order pricing and earned labor credit system for service departments. • Optimum space allocation system to eliminate double handling and backroom stock, and maximize sales and profit per ft^2.

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TB&Co - Item and Store Profit System for Retailers
"The Retail Profit Leak Detector"

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OVERVIEW	Tom Brown & Company has developed a program to continually monitor item net-profit contribution and net-profit contribution by store for retailers. It considers all costs of handling and holding. It is designed for use by general management, category managers and store operations management. Usage to date shows significant profit improvement.
UNDERLYING MANAGEMENT PHILOSOPHY	Optimization of retail profits is created by optimizing every category's profit per retail selling ft^2. This can only be done with the requisite information. Because it is not feasible to maintain records of actual space by item, we use the notion of required space to support sales, calculated from our models. Merchandisers or category managers are to manage assortment using this information assuming that the stores operate with the correct space, inventory and labor. Stores are to use the information to manage the local adaptation of assortment and to see that they are operating with the correct inventory, space and labor.
SYSTEM ELEMENTS	Item profit contribution per ft^2 of required retail space is measured by store. Profit contribution is defined as gross margin plus deals and payment terms credits, less handling and holding costs. At the user's option, delivery, handling and holding costs can be considered for the distribution center and the retail store. Otherwise the system can assume a selling price from the distribution center with delivery included or separately calculated and handling and holding for the retail store only. Ft^2 of required retail space is calculated based on required packages in the store to support peak day sales x package cube x ft^2 per ft^3 parameter. This calculation also determines holding costs at retail. Handling costs are calculated for back room and checkout from item characteristics and store characteristics. Item characteristics include type of case, type of stocking, weight, cube and pack, which are company wide. Store characteristics include travel distances by department and types of equipment employed for unloading, movement and checkout. They are store specific. Distribution costs, if used, consider warehouse characteristics similar to the store characteristics, additional item characteristics such as received pack, case type and cases per pallet. These apply to all stores. Distribution costs also consider costs for a store, including its share of driving per a planned route and costs of unloading per store characteristics. Store and headquarters' fixed costs by department and week are considered.
SYSTEM FUNCTION	• Calculations are made weekly using scanning data and latest cost, retail by item and store. An item master file is needed for item level data not in the scanner and a store master for store characteristics and fixed costs. • Summary records are created from the store item records at the following levels: store category, store department, store, company category, company department and company. The summary records include total inventory space and handling costs by operation. • The system runs on a network in windows with an appropriate data base. • The setup is a one time activity. It involves completing questionnaires within the system which automatically generate the required coefficients.

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TB&Co - Computer Assisted Store Ordering System

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OVERVIEW	Many years of work in this area have shown us that there are many problems in store ordering, from backroom space, excessive backroom stock, space allocation, shortage of equipment and lack of employee skills... to the fundamental issues of mismatch of delivery capacity to sales and knowing whether what has been ordered will fit on the truck. Accordingly, Tom Brown & Company has developed a comprehensive, modular approach to computer assisted store ordering.
BENEFITS	Studies have shown that trucks can be made 90+% full, reducing delivery costs by 15% and that store inventories can be reduced by another 15 - 20%. Usually store space allocation and fixtures can be given minor adjustment so that there is no adverse effect on store labor costs. Stores benefit from the resulting savings and the systems control that is retained.
APPROACH USED	Depending on the situation, any or all of the following techniques may be applicable to produce better orders: 1. Developing delivery schedules from forecast sales; writing schedules for up to one month so that deliveries can be spaced out sufficiently so that all deliveries are full trucks. 2. Automatically applying available backroom stock before ordering more from the warehouse. 3. Use of perpetual inventory information and a scientifically determined order point for each day's order of each item, so that the store orders only what it needs to support sales. 4. When appropriate selecting among suppliers or between ordering from a wholesaler and from the manufacturer. 5. Use of maximum stock points on fast moving items with automatic shipping early when delivery capacity is available. 6. Automatically shipping distributions, "booked" sale and in/out merchandise early when delivery capacity is available. 7. Selective, scientific cutting back of orders that will be overloads so that only full trucks are sent. Daily scanning data is used in the most aggressive systems, but other data can be used as well. Direct Delivery can also be controlled with this process.
TYPICAL APPLICATION	1. Feasibility and delivery strategy study. 2. Systems study where we decide what modules to use and where to place them, and whether software is to be developed or purchased. Tom Brown & Company supplies either a full buying system or a wholesaler/warehouse ordering optimization system when they are needed. 3. Store level pilot studies. 4. Roll-out program where we adjust each store, do forecasts and start program.
USERS	Tom Brown & Company has applied this approach for King Soopers, Meijer and Wakefern. A demonstration or either its full buying system or the warehouse ordering program, the "black box", can be shown.

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TB&Co - Item and Customer Profit System

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OVERVIEW	Tom Brown & Company has developed a program to continually monitor item and customer profit for distributors considering all costs of holding and handling. It is designed for use by buyer/merchandisers and customer account executives concerned with pricing. Usage to date shows significant profit improvement.
SYSTEM ELEMENTS	Item Profit is tracked from receiving through selection on the customer's order. It considers holding costs and handling costs. Each time an item is received, correct handling costs are established for that lot of goods. Holding costs for each lot are tracked until sold. We are able to measure whether lots of an item are being held longer than planned, due to over buying, thus depressing profits. Customer Profit is tracked from order selection through delivery, starting with the item profit of what was ordered, and considering costs of selecting, loading, invoicing and delivery. Special problems or services rendered on delivery are measured and included in customer profit. Handling Costs are tied back to actual costs by operation. Thus we have standard hours earned by warehouse operation and customer delivery. We also have standard miles and hours earned by transportation route. Transportation Profit is tracked by route, including revenues both of customer deliveries freight charged and supplier pickups backhaul revenues less the costs of the route at standard from the profit model and actual from the trip recorder.
SYSTEM FUNCTION	• The system runs from item master, vendor master, receiving and billing files plus internal handling cost models. • Setup of the models is simply accomplished by the user answering questions about distances and handling steps for each department of the warehouse and for each customer. • MIS supplies receiving files and billing files plus item and customer master files. • The program runs on a daily or weekly basis. • Reporting is extensive both with printed reports and screens. Customer profit and delivery route history screens are especially helpful. Exception analysis identifies items, customers and transportation routes that lose money. The results are placed in a relational data base for easy user inquiry. • The system runs on a network or stand alone basis with Windows 95 or Windows NT. • Tom Brown & Company has a background in cost models and pricing that has enabled it to take a fresh and practical approach to this critical problem area.

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TB&Co - Product Forecasting System

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OVERVIEW	The Product Forecasting System is a comprehensive system to forecast base and promotional demand for products. It produces a highly accurate forecast from historical data using specially designed filters to decide what data to take into the forecast calculation. It also has a seasonal forecast capability that can be used by individual product or family.
METHODOLOGY	1. System makes a base forecast by item by customer or business segment. • Uses past 13 weeks to calculate de-seasonalized forecast • Selectively uses only most recent 4 - 6 weeks when apparent demand change • Has capability to use advance estimates for newly sold base business 2. Promotions are supplied with their effective dates and value of promotion to customer. System applies a model to compute a promotional multiple. 3. Marketing is allowed to enter promotions where value is not given, but where a projection is made and bookings are later taken against the projection. 4. System collects all customers' base and promotional forecasts to develop a consolidated forecast for use in production and materials requirements planning. 5. System calculates expected requirements and anticipated forecast error so that we can deal with safety stock requirements if desired. 6. System computes seasonal factors, if desired, by family either from past history or from a temperature forecast and a temperature regression model.
TYPICAL APPLICATION	This system runs on a PC network such as Windows 95 or Windows NT. It can work with any OBDC compliant database.

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TB&Co - Materials Purchasing System

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OVERVIEW	The TB&Co Materials Purchasing System is a comprehensive system to write purchase orders for a set of material requirements. It considers many possible economic conditions that could affect quantities purchased and purchasing sources. The system produces recommended orders that need not be changed when dealing with stable product suppliers and lead times.
MAIN FEATURES	1. Automatically evaluates up to 8 sources each time purchase orders are generated, considering transport cost, product cost, lead time, min/max purchase quantity at item and vendor levels. 2. Builds rail car, truck or container loads by supplier or by region. 3. Buys ahead based on price forecasts when it is advantageous to do so. 4. Automatically respects supplier palletization or other modularization. 5. Balances days purchased ahead based on when next incremental quantity of material will need to be brought in, rather than by days supply, reducing overall inventory. 6. Makes advanced commitments on long lead time items, and then complement the advanced ordering with fill in ordering of short lead time items in order to meet minimum or maximum delivery requirements of the supplier. 7. Works both on discrete requirements (quantity and day) and forecast usage rates. • Discrete requirements would typically apply to purchased materials where the requirements have been calculated from bills of materials applied to manufactured product schedules. • Forecast usage rates would typically apply to directly forecasted supply items.
TYPICAL APPLICATION	This system runs on a PC network such as Windows 95 or Windows NT. It can work with any ODBC compliant database.

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TB&Co - Inventory Control / Requirements Planning System

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OVERVIEW	Tom Brown & Company has an extremely efficient inventory control and requirements planning system to work between its forecasting and purchasing systems. The system works very well in situations where there are no manufactured assemblies used in manufactured products, or at least where no manufactured assemblies are kept in stock.
METHODOLOGY	1. The inventory control system processes shipping notices for manufactured products and production withdrawals for purchased materials each day, calculating balances on hand for each. 2. The forecasting system (separate product) calculates a forecast of manufactured products based on average shipping rates of manufactured products and/or orders from customers. 3. The requirements planning system uses the bill of material file to calculate purchased materials requirements by date. Requirements for common purchased materials are collected and summed. • The bill of materials file gives item numbers of purchased materials to make manufactured products. It gives the quantity of purchased materials to make one unit of manufactured product and the manufacturing lead-time. Lead times for a given manufactured product can differ by purchased item. 4. The purchased supply items can be forecast directly by the forecasting system.
TYPICAL APPLICATION	This system runs on a PC network such as Windows 95 or Windows NT. It can work with any OBDC compliant database.

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TB&Co - Retailer Industry Issues

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These issues confront all retail operators, whether chain or independent.

1) *Increasing level of investment to have a competitive store.*

In our view it will be necessary to design a store to produce a sufficient level of profit or abandon the site. This is done by obtaining and using figures for sales and profit by category (generally by type of customer). Then you plan the number of customers that you can attract to the site by type of customer. Profit by category is expressed as net profit contribution per dollar of sales. Finally investment and overhead costs are budgeted and the store profit equation emerges.

The *TB&Co service* offered is to set up the data base and all the calculations, first building the initial data and then refining it as results are collected from individual stores.

2) *Managing Lower skill level at stores.*

Traditionally the individual supermarket makes all ordering decisions, including forecasting results from promotions. Sometimes they are given guidelines from HQ, but they are at best very crude guidelines. In addition space allocation decisions are often made locally, by very crude methods. Finally methods and equipment are often poor at retail level. It is necessary that the ordering and space decisions be taken out of the hands of the store employee and given to either a system or a marketing manager. It is likewise necessary that methods and equipment be standardized and maintained. Perhaps the McDonalds methods are the model.

The *TB&Co service* offered is to set up the decision criteria and systems for a marketing manager to use; to deal carefully with equipment and methods employed considering the skill of employees. We carefully justify same and establish work standards; we also decide where the marketing managers are located considering the information infrastructure and the degree of local adaptation called for.

3) *Customizing stores to local competition.*

The traditional model is to have a reasonably fixed planogram with minor variations from store to store. Most likely, differences from store to store come from differences in demographics in the store's marketing area. But there is a new challenge on the horizon. Aggressive club stores, Walmarts and chain drug stores, not to mention specialty pet and office supply stores, even airport stores and direct to consumer may be competing very well with limited categories. The new model maintains a survey of nontraditional competition by category and recommends where to fight or withdraw in terms of assortment and pricing.

The *TB&Co service* is to set up the template for recording the competitive data, calculations as to probable sales and profit impact, and method of developing recommendations. We also set up the human and systems machinery to implement the recommended changes.

4) *Upgrading level of decisions made at the retail store.*

On one hand, we do not want clerks making forecasts or space allocation decisions. On the other hand we want well trained enlightened managers to combine their on site observations with data analysis and systems simulations to frequently change or adapt store programs. Generally this calls for well educated and trained store managers with appropriate analytical staff.

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The *TB&Co service* is to develop educational and experience standards for store managers and training programs to get them deployed. We would typically develop prototype systems and train the managers in how to do the analysis and supervise this through several change cycles.

5) *Enhancing marketing programs to get full allotment of promotional monies.*

There are countless examples of promotions not well executed...where manufacturer money and retailer marketing resources are wasted or under utilized. There are examples where manufacturer programs are paid lip service with no real execution. Store displays for a chain would be an example of this.

The *TB&Co service* is to develop a promotional execution policy and cost justify it, perhaps with a test, then work out an organization, incentive and rules to enforce the policy.

6) *Fully executing Category Management to maximize sales and profit per cubic ft.*

The typical level of $5 sales per ft2 and 15% gross margin is not adequate. The typical category is given too much space and too many items or token space and too few items. Studies have shown that the customer is confused as to what to buy; that sales and profit increase when space is optimized. Further, pricing must be optimized to charge a premium for unique items and market price for competitive items. This must be dealt with on two levels. At HQ we deal with those items and categories not especially subject to local influence. At store (or local marketing manager level) we deal with items and categories subject to local influence. Always we are managing to profit contribution per ft2, which is gross margin less holding and handling costs.

The *TB&Co service* offered is to set up the database and all the calculations, first building the initial data and then refining it as results are collected from individual stores. This is a related service to that for store design, except that this deals with the items after conclusions are reached with the categories.

7) *Improving management of assortment, knowing costs and potential profits.*

The 30,000+ items carried at retail typically include many items that are not sufficiently productive. In addition to the need for managing profit per ft2, there is a need to specifically deal with the considerable redundancy of assortment. Although obviously a full assortment may build sales, too much space is fatal to profit per ft2. There is a specific methodology for identifying brands and sizes (and with more difficulties, flavor or color) in the computer and to have a model to eliminate redundancies in stages and forecast the sales and profit result.

The *TB&Co service* is to build and validate the model, include measuring elasticities for use in forecasting, and calculations to manipulate brands and sizes; then to take the organization through several cycles of its application.

8) *Improving management and use of promotional spaces.*

One study shows that better management could double promotional profits. Every promotional space should be held to a higher standard than ordinary shelf space for sales and profit. The time of a display should be limited before rotation to other items. Ordering should be managed so that excessive carryover stock is not created from the promotion.

The *TB&Co service* is to create the planning models, set initial standards and to create the after-fact measurements. We do the prototype systems and take the organization through training cycles. We deal where these decisions are taken. Obviously some decisions are HQ decisions and some are local decisions to be taken by store managers and/or marketing managers; TB&Co deals with how to do this best.

9) *Reducing levels of shrink, especially in perishables.*

Shrink is often hidden by projections of retail yield that are too conservative. Studies show that shrink is as much as 20%, when all reasons for selling products at less than its full profit contribution is considered. There is a shrink from wasted labor that creates no value added to the customer. We believe that careful measurement is essential; thus projected yields from merchandisers must be forced to have no padding. We also believe that the product and methods should designed to create no shrink (e.g., supplier packages needing no preparation and special handling, as in case-ready meat).

The *TB&Co service* is to carefully design the shrink reduction process and assist in its implementation.

10) *Measuring profit by class of customer, where classes of customers would have specific marketing programs.*

Must carefully define what constitutes a good customer -- clearly something more then measuring level of purchases! Scanners can be set to measure profit contribution by customer, considering gross margin and handling costs of items purchased in the transaction as well as transaction handling costs. Customers can be classified by size of purchase, or type of purchase, and when the customer is identified, aggregated by customer. Good customers are not defined as customers with high dollar purchases. We can probably best define good customers in terms of profit contribution by transaction.. It is necessary to take all possible steps to identify customers by a frequent shopper number, credit card or checking account... and to get customers to use their identification.

The *TB&Co service* is do develop the handling cost models and assist in their implementation in the scanning system, then help in the analysis and classification of good and bad customers.

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TB&Co - Independent Retailer Industry Issues

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The retailer that is not self-distributing has at least three issues that other segments of the industry do not have.

1) *Dealing with wholesaler pricing that does not offer incentives to be more efficient and does not share cost savings brought about by the retailer's decisions.*

You do not want a wholesaler that takes the risk of trucks being full or is willing to give you peak deliveries or special deliveries. If you have such a wholesaler, that wholesaler may be overcharging you for your off peak deliveries or for your full truck deliveries. Likewise you do not want the wholesaler to keep the payment terms, which vary considerably from item to item and vendor to vendor and substitute an across the board markup fee. Nor do you want the wholesaler to charge you the same price for different flavors of soup that have different costs. Nor do you want the wholesaler to charge you the same markup on slow-moving items as fast-moving items. The reason is simple and always the same...We want the true cost of the item so that we have the opportunity to get the lowest cost items to merchandise and promote. And you would see that the savings opportunity is often very big.

The *TB&Co service* is to write a request for proposal for you to give to wholesalers and get their bids on the services that you want or would consider taking if the price were right.

2) *Dealing with the issue of having a single wholesaler-supplier or multiple wholesaler-suppliers, and if multiples, what to buy from each.*

As explained in issue #1, we would prefer to have a supplier that gives us the savings from our decisions. Clearly such a wholesaler would give us savings from buying a full truck and from off peak deliveries, from backhauls and even from cross-dock. In such as case we would buy from one wholesaler, who would, in turn work with manufacturers and other wholesalers to cross dock when it was not efficient to stock the desired merchandise. If we were unable to make such a wholesaler arrangement, and, for example, were paying freight based on weight and where there were dramatically different pricing schemes between the competing wholesalers, then you need a method of deciding exactly which items to take from each wholesaler.

The preferred *TB&Co service* is to negotiate a program with a single wholesaler with you. Failing that we would supply a model and ordering software add-on to selectively order the best items from each wholesaler.

3) *If and when to buy direct from the manufacturer.*

This is a related point to the above issues #1 and #2. In terms of absolute cost it would be somewhat unusual that a manufacturer stop at a supermarket is totally justified. However, the manufacturer often subsidizes such deliveries. Most of the time we would prefer that the merchandise be cross-docked through the wholesaler.

The *TB&Co service* would be to set up a program with the wholesaler, and failing that or in addition to that a model to decide when to buy direct. It could be a part of the ordering software add-on discussed in issue #2.

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TB&Co - Small Retail Organization Industry Issues

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Current Issues:

1) *How to get quality systems support when it is almost prohibitive to afford custom development.*

We believe that almost everybody can afford to have a computer literate person on the staff who can use the PC tools that are now widely available. We would suggest that a college graduate from a business school would have such skill. Such a person would be an excellent assistant manager. Other sources include shareware on the Internet and as advertised in various media. Additionally, a good wholesaler would be concerned about supplying systems to customers.

TB&Co can give advice about necessary systems, and in some cases supply them.

2) *How to afford to manage across several stores.*

There are a number of relevant requirements here, including:

- Sales and profit-per-cubic-ft. figures by department to compare.
- Labor figures that are established based on the actual conditions in the store.
- Figures about the mix of customers.
- Responsible personnel in each store that can use the figures.
- Audit checklists, which are rigorously updated at reasonable intervals.

TB&Co can assist in setting up the information and checklist, as well as evaluating people and reviewing comparative data.

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TB&Co - Warehouse Distribution Industry Issues

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These issues affect wholesalers and retail chains.

1) *The warehouse must have a rational and accurate method of deciding how to physically handle each item distributed.*

Nowadays stocking versus cross docking must be explicitly considered, as cross docking is widely available at a small premium cost. That decision should be made based on whether the premium paid for cross docking is less than the savings in handling and holding costs. Once stocking is decided pallet or case flow rack must be considered versus traditional pallet rack or hand stacks. Generally a warehouse should choose hand stacking or case flow if the movement is slow. The more orders selected per week, the higher the movement rate that is still justified for hand stack. Case flow rack is cheaper to fill than hand stack and gives a better density of items per foot of aisle-usually easy to justify. Pallet flow rack is justified to save replenishment costs and keep picking density high.

The *TB&Co service* deals with when to stock and when to cross-dock and how to handle in the warehouse. We have a questionnaire system to determine the relevant handling costs and computer models to decide stock or cross-dock and how to handle in the warehouse under either system. We can make a one time study or provide you with a tool to do this continually.

2) *The warehouse must have a way of changing to continually accommodate the best handling methods for each item.*

Item handling requirements change with the change of seasons, growth of the business, the influx of new items and the availability of space in the warehouse. There is a need to make a best match of items to slots with various handling methods. From time to time it is necessary to reassess the mix of handling methods. For example, as assortment increases it would be valid to have more case flow rack or hand stack and less pallet storage. Also there is a method of setting up groups of rack types within families so that it is possible to make changes with sharply reduced labor costs.

TB&Co offers the service of specifying the appropriate types of racks and the criteria for assigning items to racks, If desired we supply a warehouse space-planning module that makes recommendations continually. We train warehouse personnel in its use.

3) *The warehouse must have cost incentives for stores to order as much as possible per delivery and not use excessive peak period deliveries.*

Generally stores are undercharged per order. The correct cost of an order includes the administrative costs, costs to travel the warehouse, cost to load the truck, cost to drive and cost to unload. The cost to 1) load the truck and 2) drive and unload the truck, vary with the day and hour of the delivery. The cost of an off peak delivery could be 15 - 20 % less than peak due to increased utilization of equipment. Needless to say, stores have a practical problem of how to adjust ordering so they take less in peak periods and more in off-peak periods, and to limit deliveries to the size of the truck or reserved share of the truck.

TB&Co can develop or show the warehouse how to develop such costs and how to practically use them in charging for deliveries. TB&Co can also show how stores can practically limit sizes of certain deliveries and move some of merchandise delivered to off peak deliveries.

4) *The warehouse must have incentives for stores to limit the size of assortment at the warehouse.*

The assortment can grow almost without limit if individual store's perceived needs are met and manufacturer slotting allowances and promotions are pursued. We recommend that item costs include the cost of handling, space and inventory, all of which sharply increase for slow-moving items. We do not recommend that costs be averaged over different flavors of an item. Stores can learn to use different profit contribution by flavor to increase profit from the ones that have lower costs but same retail. We also recommend that the effect of reduced assortment be simulated, and assortment reduced where justified.

TB&Co has the cost models and software to calculate and upload these costs, as well as to simulate effect of assortment reductions.

5) *The warehouse must deal with extensive hidden shrink on perishables.*

Obviously there are many causes of shrink, ranging from supplier errors to buying errors to handling errors at distribution and retail. The key, we think, is to measure shrink carefully and let the management process deal with it. This starts with moving to very aggressive projections of retail yield from the merchandiser so that any problems are revealed rather than covered up. The next step is to measure markdown carefully at each level of distribution. Thus we must have two goals: low shrink and no unmeasured shrink.

TB&Co has industry figures, model procedures and software. We can set up an appropriate program for your company. We also have a special service in aduiting perishables.

6) *The warehouse must use the new technology but strike a balance in how much and at what cost.*

The answer may be in carefully selecting technology that looks for the cheapest total solution. Thus handling could be reduced rather than investing in scanning to track the handling.

TB&Co has the cost models and total grasp to deal with this.

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TB&Co - Single Warehouse Distribution Industry Issues

Current issues: [Return to Homepage]

1) *The single warehouse has the challenge of getting sufficient buying power to be competitive.*

Clearly with today's increasing consolidation of warehouses and manufacturer incentive programs, it is nearly impossible for a single warehouse to be competitive on a full line of products that that warehouse buys for itself.

The multi warehouse operator has the possibility of setting up slow moving warehouses that stock a given vendor for its other warehouses and/or places shared orders to the manufacturer that are picked up and shared with all of the warehouses it operates. And it is now possible that the manufacturer will pay for the freight charges to the warehouse that ultimately sells and delivers the products to the retail store.

The single warehouse operator cannot do this alone. It would need to use a cooperative buying organization to share orders; reciprocal stocking arrangements so that each company in the net stocks some of the slow moving items. Where this is not possible the single warehouse operator must consider buying slow moving products from another wholesaler.

TB&Co has the cost models and software, supplier information and contacts to analyze and set up the necessary programs as well as the systems requirements to coordinate the ongoing redistribution required by such programs.

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TB&Co - Self Distribution Industry Issues

These issues confront retail chains that operate their own warehouses. [Return to Homepage]

1) *Be sure that you are getting the lowest cost of goods, both by how you buy and how you handle goods from warehouse to retail checkout.*

There are three issues here buying, holding and handling, which when added together give you the ready to ship product cost.

1. To deal with buying you need at least to know that you are buying in the best bracket. This is now more complicated because there is now plant direct pricing, which could be restricted to certain items and limited to pallet purchases. The best way to evaluate this is to have the bracket pricing loaded so that you can directly see the cost difference. Otherwise you would need to ask your buyers to tell you what vendors are not being bought in the best bracket. If you are able to pick up the vendor more cheaply than having it delivered, that should be accounted for. Note that buying from a wholesaler or other distributor may give you better costs than could be gotten directly.
2. To deal with holding you need to know the weeks supply you must buy to meet the ordering restrictions at item and vendor level and assign a cost for space and money to hold it.
3. To deal with handling you would need to deal with the handling steps, production rates and labor rates.

The *TB&Co service* is to coordinate the collection of bracket costing data, analyze the items through the TB&Co sourcing simulator that gives the relevant buying, handling and holding costs for the item for the alternatives available, including buying from a wholesaler or other chain.

2) *Be able to rationally deal with the possibility of not warehousing every item you sell.*

As discussed above you can buy from a wholesaler, other distributor or buy from another chain. In addition you can sell items based on the stores booking them and cross docking them. And stores can purchase for delivery to the store.

The *TB&Co service* is to assist with collecting the relevant data and assisting you in analyzing the alternative costs. We do have a data bank of relevant supplier pricing and we are able to formulate proposals to be bid on by other suppliers. Our simulator makes it easy to analyze costs FOB store including cost of purchase, transportation handling and holding.

3) *Have a transfer cost to your stores that reflects true purchased cost, plus handling, holding and delivery costs by item, so that your stores are working with true costs.*

Our experience is that many self-distributing chains have very distorted costs that are shown to retail, and on which retails are set. Distortions include retention of certain income from manufacturers and setting of high overhead factors. Although wholesalers have their own pricing issues, always they charge a specific delivered cost per item to customers; generally they do put a cost on each item that has a degree of realism.

In general we recommend that the transfer at least be the true landed cost at the warehouse. However, to avoid having fast moving, efficiently handled products subsidizing the other products you must compute: an in-warehouse 'holding cost" based on weeks supply purchased, cost and cube; a "handling cost" based on palletization, weight and cube; and a delivery cost based on weight and cube. You should assess a delivery cost based on a standard order size and "zoned" delivery distance.

The *TB&Co service* is to deal with the data collection and analysis. We have cost models that can estimate the costs by item and delivery with great accuracy. We also have software to calculate, maintain and upload the transfer costs.

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TB&Co Multi-Warehouse Distribution Industry Issues

Current Industry issues: [Return to Homepage]

1) *Retail chains or wholesalers should consider the idea that it is not economic to stock every item in each warehouse, nor is it economic for each warehouse to order separately from a given manufacturer.*

Clearly with today's increasing consolidation of warehouses and manufacturer incentive programs, it is nearly impossible for a single warehouse to be competitive on a full line of products that that warehouse buys for itself.

The multi warehouse operator has the possibility of setting up slow moving warehouses that stock a given vendor for its other warehouses and/or places shared orders to the manufacturer that are picked up and shared with all of the warehouses it operates. And it is now possible that the manufacturer will pay for the freight charges to the warehouse that ultimately sells and delivers the products to the retail store.

TB&Co has the cost models and software, supplier information and contacts to analyze and set up the necessary programs as well as the systems requirements to coordinate the ongoing redistribution required by such programs.

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TB&Co - Wholesaler Industry Issues

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The wholesaler has some challenges that the self-distributing chains do not have.

1) *The wholesaler must make its profit from the value-added services it provides.*

It cannot claim any profit from retailing to cover its costs, nor can it claim manufacturer promotional monies that are offered for retail promotion. Thus a wholesaler must be bigger than a self-distributing chain to make money, all things being equal. However, the wholesaler can overcome its handicap by pricing to its customers in a way that promotes the greatest efficiencies. For example by filling trucks, using off peak deliveries. Also the wholesaler can streamline assortment in a way that a chain would not do. The wholesaler can also form voluntary organizations for promotion to assure all of the manufacturer promotions go to its customers.

TB&Co understands the wholesaler costs and pricing issues; it can serve as an objective third party showing retailer and wholesaler that the program proposed will maximize benefit to each.

2) *The wholesaler must be sure that it is getting the lowest cost on most, if not all items and know where it is not competitive so as to be able to improve.*

There are three issues here buying, holding and handling, which when added together give you the ready to ship product cost.

1. To deal with buying you need at least to know that you are buying in the best bracket. This is now more complicated because there is now plant direct pricing, which could be restricted to certain items and limited to pallet purchases. The best way to evaluate this is to have the bracket pricing loaded so that you can directly see the cost difference. Otherwise you would need to ask your buyers to tell you what vendors are not being bought in the best bracket. If you are able to pick up the vendor more cheaply than having it delivered, that should be accounted for. Note that buying from a wholesaler or other distributor may give you better costs than could be gotten directly.
2. To deal with holding you need to know the weeks supply you must buy to meet the ordering restrictions at item and vendor level and assign a cost for space and money to hold it.
3. To deal with handling you would need to deal with the handling steps, production rates and labor rates.

The *TB&Co service* is to coordinate the collection of bracket costing data, analyze the items through the TB&Co Sourcing Simulator that gives the relevant buying, handling and holding costs for the item for the alternatives available, including buying from a wholesaler or other chain.

3) *The wholesaler can overcome the tendency of the traditional pricing schemes to put all risk in the hand of the wholesaler.*

Examples include:

- The mix of products sold within a category that have different costs but the same selling price. In this case the wholesaler bears the risk of swings in profit due to the retailer ordering one item or another. Clearly the wholesaler must take more margin on such items for taking that risk.
- The mix of peak and off peak deliveries, where the peak deliveries have a much higher cost since much of the equipment used for these deliveries have very poor utilization. In this case there must be an incentive for the retailer to take off peak deliveries or pay a higher price for peak deliveries.
- The risk of full trucks or not, when freight is charged by weight, or worse, percentage of sales value.

The cost of delivery is comprised of the cost of order picking and loading, trucking and unloading. The order picking costs should be recovered through a per-order and a per-cubic-foot-cost by department ordered. Generally the trucking portion of delivery cost should be charged for by the load, or if multi stop charged for by prorating the cost of the run among the stops. The unloading cost should include a cost for any waiting plus a cube cost per department unloaded by pallet - not case checked. Orders that are unloaded by case should have a case and weight cost. Orders that are case checked should have an additional case cost.

TB&Co has the necessary cost models to set up such a program and enough experience to sell the retailer on its merits.

4) *Offering value to customers when you cannot (or do not) stock all the items the customer sells.*

It must be a rule that the wholesaler only charges for value added services. The wholesaler can charge for cross docking on a reduced cost basis over stocked product, saving the cost, risk of shrink and disruption of another delivery.

TB&Co knows how to set up a system to efficiently do cross docking.

5) *Dealing with costly-to-serve (small) customers, and what prices to charge.*

The wholesaler has no obligation to subsidize a small retail customer. Charging an order fee, stop fee and pro rata share of the driving will help keep the customer viable. It is necessary to be very creative on minimizing number of deliveries, helping the retailer to buy the most shelf stable perishables, selling the retailer as full a line as possible and cross docking. The retailer may need assistance in selecting assortment and pricing it to be competitive.

TB&Co has the necessary cost models and analytical tools to facilitate this process.

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TB&Co - Single Warehouse Wholesaler Industry Issues

Current Issue: [Return to Homepage]

1) *How to deal with the very aggressive, almost predatory pricing offered to your customers by a multi warehouse wholesaler.*

We have seen large wholesalers that want to buy business. This is often with a contract that is difficult to break or with item prices that are artificially high. Although distasteful to deal with, relief can be sought in the courts.

TB&Co can analyze the long-term cost of such contracts, hopefully to show that they are higher in cost than expected. It can also serve as an expert to demonstrate that such a program is most likely illegally selling below cost.

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TB&Co - Multi Warehouse Wholesaler Industry Issues

Current Issues: [Return to Homepage]

1) *How to measure profitability and justify profitability when the business is significantly different from warehouse to warehouse.*

Generally the wholesaler must look for a fair return on fixed costs. It needs to know its break-even point and its profit if it has all possible business in the region, and where the business is operated with reasonable efficiency. There is an analytical technique called profit volume analysis that works well for this.

TB&Co consultants are well schooled in applying this.

2) *How to measure and justify productivity in buying and operations when the business is significantly different from warehouse to warehouse.*

Productivity must be measured relative to standards for each operation which cover at least direct costs, inventory costs, fixed and programmed cost. There is a technique to inexpensively develop such standards in such a way that they are responsive to real differences in the operation such as the facility or mix of sales, but not responsive to differences in efficiencies of operation such as work practices of the labor force.

TB&Co has a proven set of standards and models for doing this. Either one-time studies or on-going information can be created. Our special services *warehouse audit* and *buying audit* would enable us to rapidly evaluate several warehouses within a company.

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TB&Co - Manufacturer Selling Program Industry Issues

Current Industry Issues: [Return to Homepage]

1) *Create pricing programs that give customers the incentive to buy in less costly ways for the manufacturer and customer.*

Obviously manufacturers have succeeded in many ways doing this already; this is the foundation of bracket pricing. However we know that there are many situations either where the customer has no incentive to buy in the best way or the program is structured so as to deny certain customers access to that program due to the product or volume mix of the customer.

Two examples will suffice:

1. If there is no charge for a canceled order, the customer may cancel orders from time to time;
2. If a customer needs some items in layer quantities and other items in pallet quantities and there is a plant purchase program that only allows pallet quantities that customer does not have access to the plant program.

TB&Co has cost models that cover both supplier costs and customer costs. It can develop costs of certain practices, put in a reporting system so that the costs are tracked and work out solutions acceptable to all parties.

2) *Create data on customer profitability and customer simulation capability for use in planning and evaluations.*

It is one thing to know that a practice occasionally happens versus knowing how it has impacted customer profits. It is nearly mandatory today to test proposed programs before putting them in place. Yet many manufacturer do not have adequate data or simulation capability.

TB&Co has developed an integrated system of customer profitability that runs on data generated from sales reporting and billing. It is integrated with simulation capability-that can be deployed from a menu or simple program commands can be written to introduce new programs.

3) *Assure customer performance and value received for any promotional monies spent.*

We can say from experience that execution is generally poor and excessive claims for monies frequent. Also, we think that manufacturers have not been aggressive enough with customers to force good execution. Procter and Gamble has created excellent standards in this area.

TB&Co knows the problems and costs involved. We are in a strong position to design programs that would sharply increase the yield from manufacturer promotional programs.

4) *Arrive at equitable new product fees.*

The problem of slotting fees is not solved. Too many products fail and too much money goes into distributor hands. Perhaps a new product should never be slotted in the warehouse until it succeeds, but cross docked in the meantime.

TB&Co believes that the fee should be for actual costs and should include actual efforts to make the product succeed. TB&Co has the contacts and knowledge to develop a solution that would be different for different manufacturers.

5) *Arrive at objective-oriented cost justified marketing programs, for product distribution and promotion.*

We think that the manufacturer does not know what the value is of obtaining a given distribution point for its product nor does it know well enough the value of selling an additional case of product. For example, in some instances the value of additional sales would be to preserve market where and to sell to a market that will pay less than normal for the product. It may be OK to serve this market if there is a positive profit contribution to so doing.

TB&Co has the concepts, measurement techniques and cost models to deal with these ideas for the manufacturers.

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TB&Co - Manufacturer Distribution Industry Issues

Current Industry Issues: [Return to Homepage]

1) *Giving customers access to plant production without intervening handling or storage operations.*

We know that it is possible to line load product. We know that typical plants do not have the capacity to deal with inefficient trucking companies and assembling mixed trucks. But we know that certain industries have solved this problem with a combination of scheduling, trucking restrictions and up charges for certain services. This is a problem that needs to be better solved.

TB&Co has worked in this area for some leading manufacturers where the problem was solved.

2) *Giving customers access to less than pallet quantities for slower moving items at the same time most items are tendered in pallet quantities.*

Generally this required a limited inventory of layer items sold at a higher cost along with the pallet items sold at the lowest price and with very stringent conditions for delivery/pickup appointments.

TB&Co has the specialized skills to deal with this for manufacturers.

3) *Creating Shared Transportation Systems.*

Working with customers to have a hybrid transportation system that lets manufacturer deliver goods to an initial drop off point and have the distributor transport the goods to the final distribution point.

The idea, of course, is to have the principal vehicles loaded in both directions. Thus we want the each party to do the part of the transportation that they can do most efficiently. We have seen situations where it is best to have the manufacturer deliver to a point of origin in truckload quantities dedicated to the manufacturer. Subsequently however, it is best to handle the product in mixed trucks with other manufacturers because of dealing with the demand for a single distribution point.. and where it is likely that that truck would belong to the distributor and be used in a backhaul. This near perfect example of cost sharing occurs frequently. Some manufacturers are participating in this type of sharing.

TB&Co has the costs and experience to work out the sharing and to make rules to remove abuses.

4) *Allowing purchase orders that cover an entire truck, rather than one PO for each particular destination warehouse on that truck.*

This is a very practical problem. It is clearly very costly to build a truck with say ten stops all segregated. By allowing a single PO and allowing the manufacturer to pick the order as one order, knowing that it will be sorted and segregated downstream will result in significant savings.

TB&Co has the costs and experience to work this out for the manufacturer.

5) *Creating Ad-hoc distribution systems.*

Under the idea of flowing merchandise to where it is needed, the customer should give sales requirements by point of sale. A model should calculate the best way to get the merchandise to the points of sale. The system should allow a mix of direct to store delivery, cross docking, drop off transfer point and warehouse delivery, charging customer for the mix of services actually used.

TB&Co has experience and expertise with this idea.

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TB&Co - Manufacturer Production Industry Issues

Current Industry Issues: [Return to Homepage]

1. Minimizing the least finished goods inventory in production scheduling.

As markets get more fragmented (or segmented), we need to drive production run lengths to the lowest possible. This takes methods, equipment and layouts to make the changeover time between products the least possible. There are huge savings in minimizing or eliminating handling and storage of finished goods.

TB&Co offers a very strong analysis capability to show the effect on optimum run lengths as changeover costs are reduced. TB&Co also offers strong skills in the design and layout of lines to minimize handling and especially costs of changeover.

2. Forecasting base demand for products with sufficient accuracy, and separating it from promotional spikes.

To often production is set from history of customer orders without sufficient filtering. Often production capability is set for a mix of base demand and promotional demand - higher than necessary for base demand but not high enough for production demand.

TB&Co offers a capability of forecasting by customer for base and promotional demand with a set of sophisticated filters that separate the two.

3. Organizing production so that promotional production is not done at a premium cost.

We see many instances where product costs are for an average run size that is nether for base demand or promotional demand. Both sets of costs should be known: in truth, there are instances where a product is uneconomic for one or the other modes of demand. It is very necessary to develop and use cost models of the various handling and change-over aspects of production that especially vary with production rates or run lengths.

The TB&Co service is to organize such a set of cost and planning models.

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TB&Co - Manufacturer Route Delivery Industry Issues

Current Industry Issues: [Return to Homepage]

1) *Reducing the cost of a DSD operation without sacrificing sales.*

DSD is expensive, nearly as expensive as its cousin, route jobbing. It exists because some manufacturers force it to exist and also because it forces execution of reasonable ordering and stocking. It is a fact that stores are more pressed and have seemingly less skills.

But it is also a fact that nearly all items need better ordering and execution. We think that more effort needs to be made to separate the distribution from the ordering and merchandising. We note that in other countries and even in the US under limited circumstances that there are merchandisers put in place by manufacturers. But in general the delivery could come from the main warehouse of the chain.

TB&Co has the experience of dozens of route delivery studies to use for working out a solution.

2) *Adopting alternate delivery systems in geographical areas with very low population densities.*

The idea mentioned above has a particular urgency in areas of the country where there are small towns and cities and great distances between them.

TB&Co has experience with this subject.

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TB&Co - Manufacturer Multi-Plant Issues

Current Industry Issues: [Return to Homepage]

1. What products are made at what plants?

Most manufacturers have good ideas of scale of operation and some ideas of distribution costs. But perhaps they do not put the problem together well.

For us, two factors come into play:

1. Where do raw materials come from?
2. What does it cost to ship finished goods?

Generally plants should be located near raw materials. If multiple sources exist, multiple plants are possible. There is an obvious trade off in reduced ongoing shipping costs versus the added costs of producing from an additional plant.

The TB&Co service is to carefully analyze this with our excellent cost and decision models.

2. Where should inventory be located?

Note that there is also a question should there be inventory which is covered elsewhere under manufacturer issues. But if there is to be inventory, it should generally be at the manufacturing plant. Generally inventory should not be at intermediate locations unless you are also in the distribution business.

There may be an exception for seasonal pack inventory that is to be stored en route to the customer, but this has hidden costs. In that case, you must analyze the profitability of the distribution business separately from the manufacturing business.

It is questionable if a single manufacturer distribution business or operation is cost effective for most products sold in any volume. There are simply too m any full line distribution companies willing to buy ex plant in efficient quantities and do an efficient job of distribution.

If you are determined to be in the distribution business, then the location of distribution storage relates to the type of customer you are serving and the amount that you can feasibly deliver to the customer at one time. Food distributors operate at 300-400 miles from customers when they can deliver a truckload at no more than 4 stops in proximity.

TB&Co has excellent cost models to analyze this issue as well.

3. Should customers be given a choice of plants to buy from?

Generally yes! Manufacturers should want to give these customers flexibility to optimize their distribution, provided those customers stay with the chosen facility except when notice is given and accepted. And provided they observe rules on quantities and punctuality.

This is not to be given to customers that have the product delivered!

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