

The Global Commerce Initiative is working hard to introduce standards.

We asked Christian Koffmann, former chairman of GCI, about progress so far.

What savings will the Global Commerce Initiative bring?

CHRISTIAN KOFFMANN: We don't know. When we started two years ago we were responding to an immediate, pressing need rather than saying, "What kind of savings do we need to justify putting people around the table, spending money on travel?" and so on. It was more like, "Boy, if we don't get our act together we will have some real problems". We had started to understand that as we use more and more electronic data exchanges, if everybody had their own systems, we would have real difficulty communicating.

That was the starting point: How do we contribute to the efficiency of the supply chain by establishing a few standards in the way we communicate. It's a bit like EDI. If you've got zillions of EDI around and it's a different EDI every time, things get very complicated. A nightmare for everybody to manage.

Many people find standards boring. Why are CEOs so excited about them?

CK: People get excited when you warn them that all the savings they expect from streamlining the supply chain are jeopardised if we can't communicate. I

The power of standards

INTERVIEW

by Daniel Corsten
Bangkok

Efficient supply chains need common data standards. What is the Global Commerce Initiative doing to accelerate standard-setting and application? And what challenges does it face on the journey?

think they get the message – the missing piece is standards. I personally believe supply chains of the future will be in permanent communication – where the product is, in what state it is, is it saleable or is it still in process somewhere, and so on. If you don't have permanent communication using strong standards, this is not going to happen.

Supply chain management or lean manufacturing will not happen if we don't have a strong body of standards. That's what a CEO understands.

By the way, there is often confusion here between standards and processes. Usually manufacturers are ready to go very far in terms of defining common processes, as well as common data standards. But retailers are more defensive about processes because they believe theirs are proprietary and are part of their competitive advantage. So they are more reluctant in GCI to define what standard processes should be put in place.

Do you believe processes are not a source of sustainable competitive advantage – that the only sustainable source of competitive advantage left is products and services?

CK: That's very much what I'm saying.

What would you tell a small retailer or supplier looking at the GCI?

CK: Put a guy in one of the GCI working groups.

Would they be welcome?

CK: They would be very welcome. There is always a barrier to smaller players getting on board because they don't have the resources. But if you get involved, then you understand what's going on.

B2B exchanges are one of the major drivers of the GCI. But now that the e-bubble has burst, is there still the same sense of urgency?

CK: No, there isn't. Having said that, I still believe we need four or five exchanges or fewer around the world. One way or the other we need to communicate. Now, is it electronically on a bilateral basis? Or is it through exchanges? I don't know. But I do know that, more and more, we will need to communicate. So we need standardisation in the type of information we pass along.

But exchanges are not purely neutral information bodies. They do nasty things to suppliers, such as electronic auctions.

CK: That's fine with me. As a body, our interest is in having a common language when we communicate. We don't discuss things outside our brief.

How long will it take before the Global Commerce Initiative's work is finished?

CK: It was supposed to be a short-term effort. I said from the start we should have a sunset clause. In other words, we'll do this and that and then we close. Then

All the savings we expect from streamlining the supply chain are jeopardised if we can't communicate. The missing piece is standards

exchanges appeared and every exchange on the face of the planet was trying to establish some standard to try to communicate. So people said maybe we should jump in and help EAN and UCC establish the standards more quickly.

I was very resistant. There are so many bodies in the world which are set up and never end. But it seems there's a real need here. Some people are saying if this is the only body where manufacturers and retailers meet on a voluntary basis, maybe we should do something else with it. But we are not a substitute for EAN and UCC. That is very important. We are trying to do two things. First, to make sure EAN or UCC are in line in terms of processes, so they come up with the same standards. And second, to help them speed up and be ahead of the curve instead of being two years behind. Once we have done that, maybe we should trigger the sunset clause.

What about implementation of standards after they have been defined?

CK: You are right. It's easy to come up with standards, it's much more difficult to make sure people actually apply those standards. We understand that and have started to measure progress. Apparently this is a real need.

Before, I was naïve in believing that once we have a standard, everybody will apply it. Forget it. That's not the way the world works. So we have added an

addendum to the Global ECR Scorecard, which helps us measure every six months how members are applying the standards.

What are the two critical things the GCI should try achieve in the next two years?

CK: First, before we start deciding that it's nice to have a common body between retailers and manufacturers, and start thinking of using this tool for some other stuff, let's make sure we deliver what we were supposed to deliver. Second, to have some discipline in applying the standards – a standard is a standard until you change the standard. So don't tweak the standards.

What are the ingredients of success for ECR in Europe, Asia and America?

CK: Europe has been able to rally manufacturers and retailers around the concept of ECR. Europe is much more structured and consistent – having regular meetings and conferences to learn, to ramp up, to use the tools and so on – than in the US. The question is whether we can duplicate that in the US. Can we rally again manufacturers and retailers? I'm very impressed.

What about Asia?

CK: I think Asia is trying to take the same steps as Europe. It's more difficult because the region is less homogeneous than Europe.

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Christian Koffmann is the former Worldwide Consumer & Personal Care Group Chairman at Johnson & Johnson, and former chairman of the Global Commerce Initiative

In Europe, roughly speaking, the needs are the same. In Asia it's probably going to be more complex as business conditions are very different depending on whether you are in India, Australia, Japan or China. But in terms of trying to rally people and creating common, standardised tools, I think they are taking the right steps, like Europe.

Currently, ECR Asia is very focused on out-of-stocks and supply chain. Shouldn't they focus more on the consumer?

CK: It's first step first. Clean your own house before you even talk about category management.

Can marketing costs be brought down by better collaboration?

CK: We have at least been able to put a cap on our brand marketing expenses. And we are shifting these expenses more towards brand-equity building than retail or consumer promotion. As manufacturers, we believe in brand equity. Obviously, you need some trade money at the interface, but we are not interested in putting all the money there because it doesn't build our brand equities in the long run.

So there is still a conflict between what you and the trade wants. It is more interested in short term, and that has not changed.

CK: No. It has not changed.

Manufacturers have moved to very focused factories and have actually created longer supply chains. Does that not add to the problem of out of stock?

CK: On paper it does. However, when you look at the reasons for out of stocks, you find the length of the supply chain is a relatively minor issue compared with some others, like forecasting. Take Europe. There, we have made a very serious effort to develop focused plants and we are obviously lengthening the supply chain. But you are much better off making a serious effort to improve your forecasting system than in shortening your supply chain.

The comparison is very simple. If you are pretty good, your average is going to be 40 per cent off your original forecast. If you do a serious effort you can get it down to 17 per cent. You start being world class when you're at 15 per cent.

But how do you get better at looking into the future?

CK: Well, you can do a number of things. For instance, you can get information coming back from the retailers on their off-takes from the cash registers. In future, we might have direct information covering 80 per cent of our demand supplied by cash registers. That would enable us to move towards a lean manufacturing system where we replace one for one. However, we are not there

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yet. So we still try to refine our forecasting.

Also, you need stability in the people looking at forecasting. If you have the same people looking at your forecasting over time, they start understanding SKU by SKU and brand by brand, how one brand is reacting to market conditions versus another.

I think half of the improvement we made in the US was due to cash register information on-line and the other half is just by having people focusing on brands such as Band Aid on one side and Neutrogena on the other side.

In a nutshell what are the major causes of the current out of stock situation?

CK: We tend to over-react. We tend to over-react one way or another compared with underlying consumer demand, which is relatively stable. The main source of out of stocks is the noise we put into the system ourselves. But it's not easy to calm everybody down.

That's the whole idea of lean manufacturing – to have on-line information on what's going on at the cash register so that you capture what's really happening from the spot, rather than what people think is happening.

Is it true that in America you can announce new products much earlier than in Europe because in Europe

suppliers are still afraid retailers might abuse this?

CK: Yes. The system in the US is much more open. We tend to give our plans ahead of time and do a reasonably good job in terms of planning this, and share expectations. In Europe it is still not happening.

After 10 years of ECR, where are the benefits? Initially it was claimed that manufacturers and retailers would share benefits 50: 50.

CK: I think the manufacturers are getting their fair share. Sometimes it takes more time than we expect but the benefits are there.

Has the consumer benefited from ECR?

CK: Well, on a macro basis I think the consumer is getting a good chunk of the benefits. Just look at price increases in fast-moving consumer goods in the US, Europe and even in Latin America. This is not only a question of competition. We have been financing these lower prices because our costs are increasing – wages and salaries and materials and so on. I have to assume that a good chunk of this has been financed by improvements in the supply chain. I think we can prove this through our figures.

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