



Supply Chain Transformation

**The World's First Oracle Advanced Inventory
Planning Implementation**

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Home Retail
Group Video

Argos is the Largest Company in the Home Retail Group



HOMEBASE

HomeStore&More



**Home Retail Group
Financial Services**



Supply Chain Transformation
- The Argos Business Story

UK's Largest Home and General Merchandise Retailer



First catalogue 1973



UK's leading retailer in house-wares, furniture, jewellery, toys, sports and leisure equipment and small domestic appliances



200million units per annum

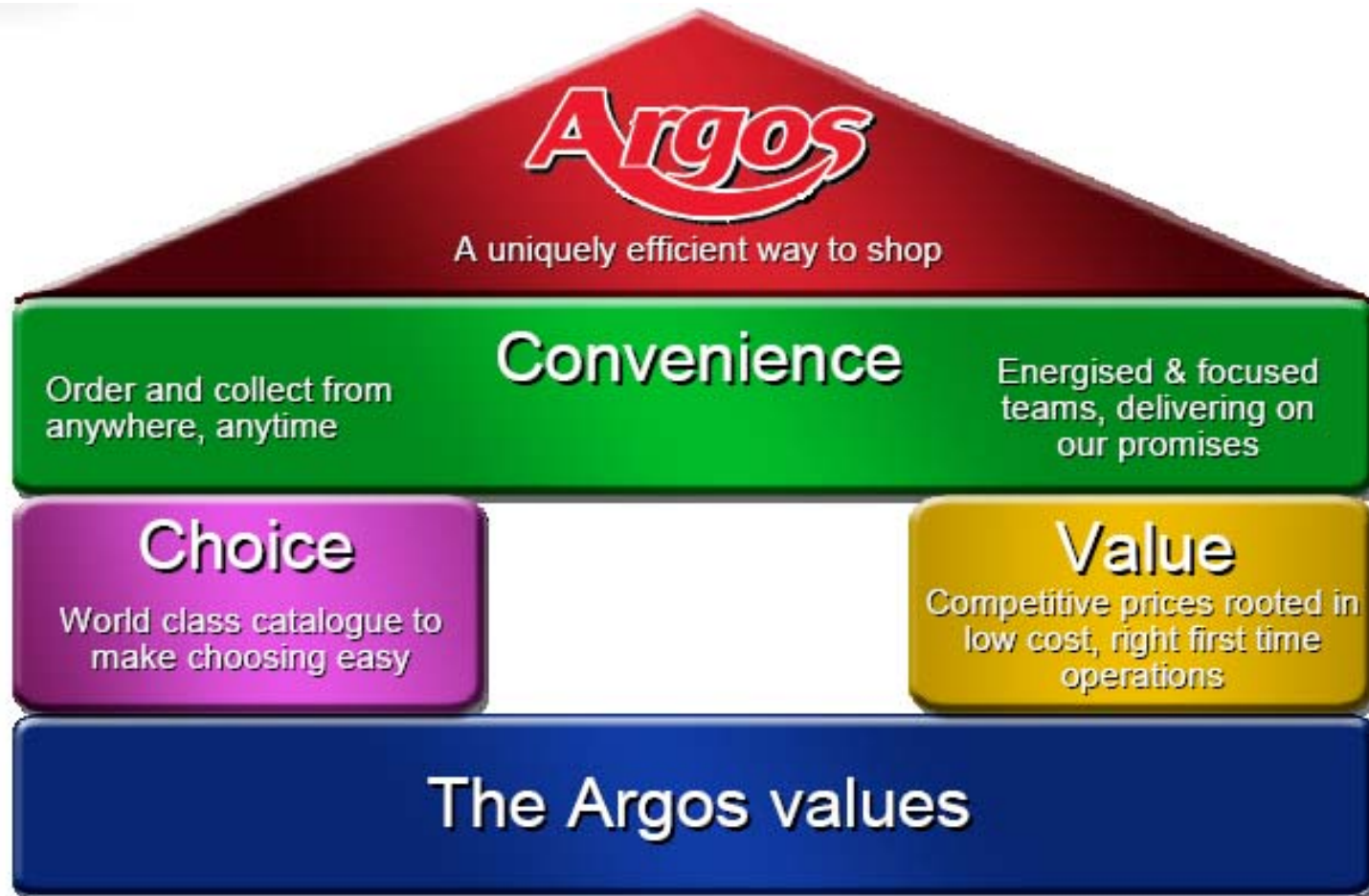


18,500 lines featured in 35 million catalogues twice a year



* - by sales volume

The Argos Vision



Argos has a fully integrated multi-channel customer offering



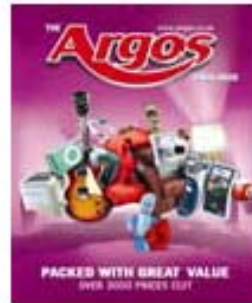
Our fully integrated multi-channel operation consistently delivers a good customer experience

Search & Select



A Unique Model

Order & Pay



Comprehensive Product Range

In-store...
...by telephone...
...or on the internet

Check & Reserve for store pick-up

Pre-pay for home delivery

Delivery Channels

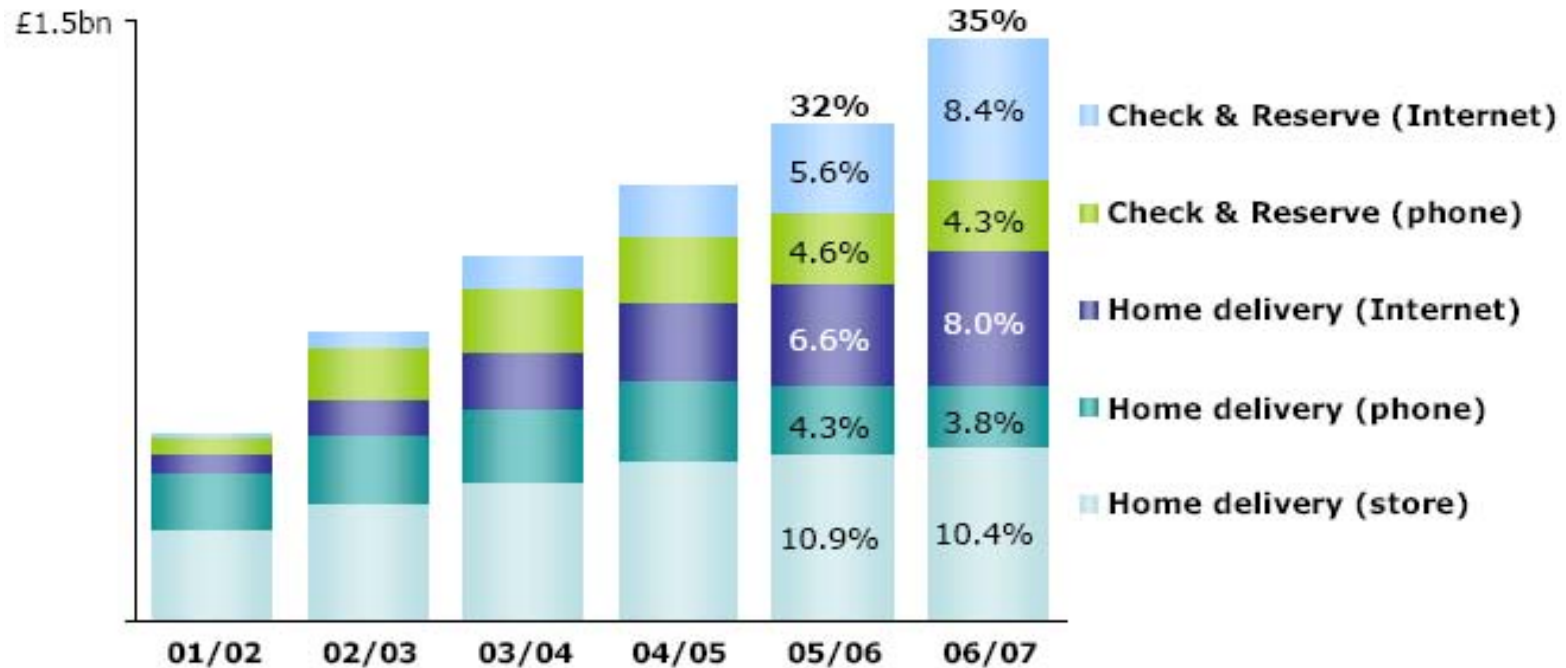


National Coverage

Our customer journey starts at home



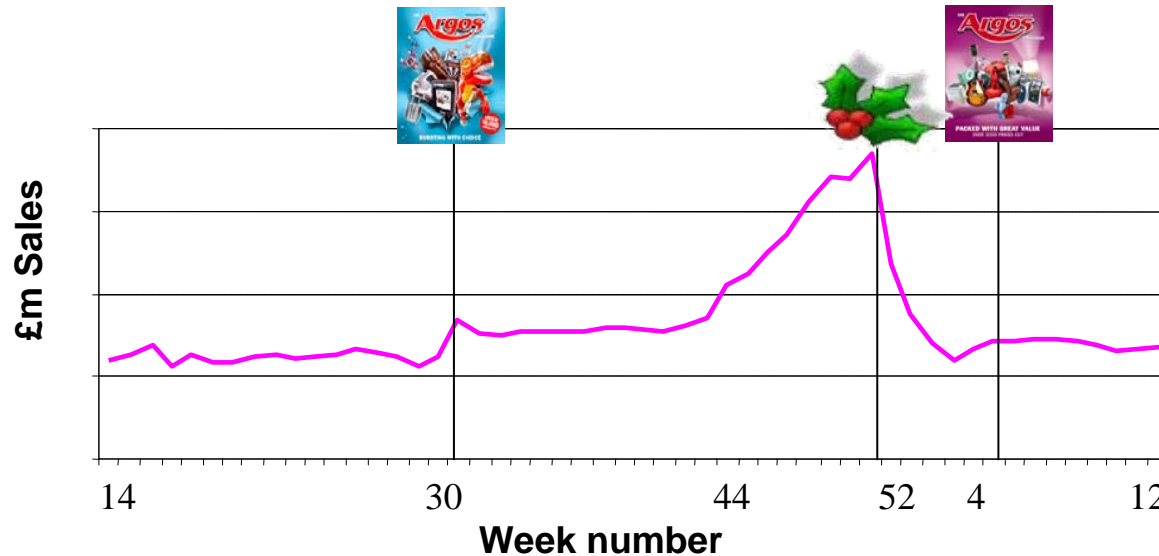
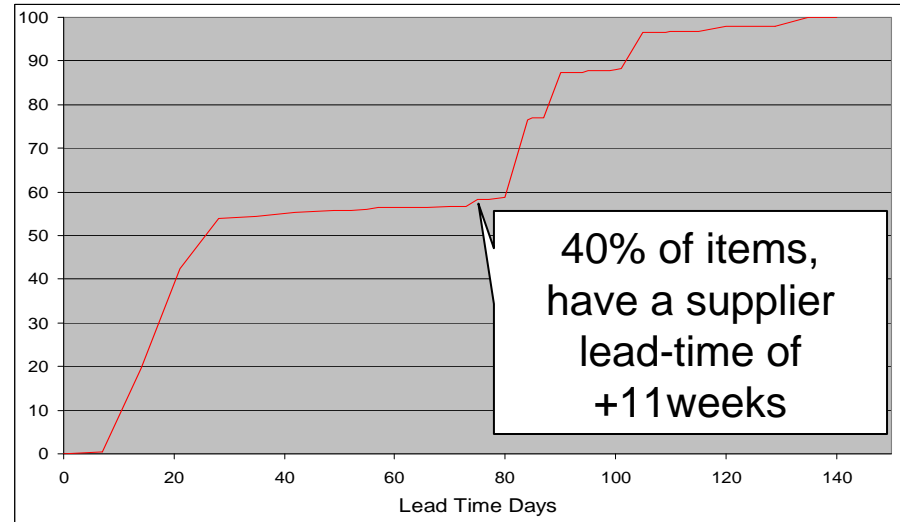
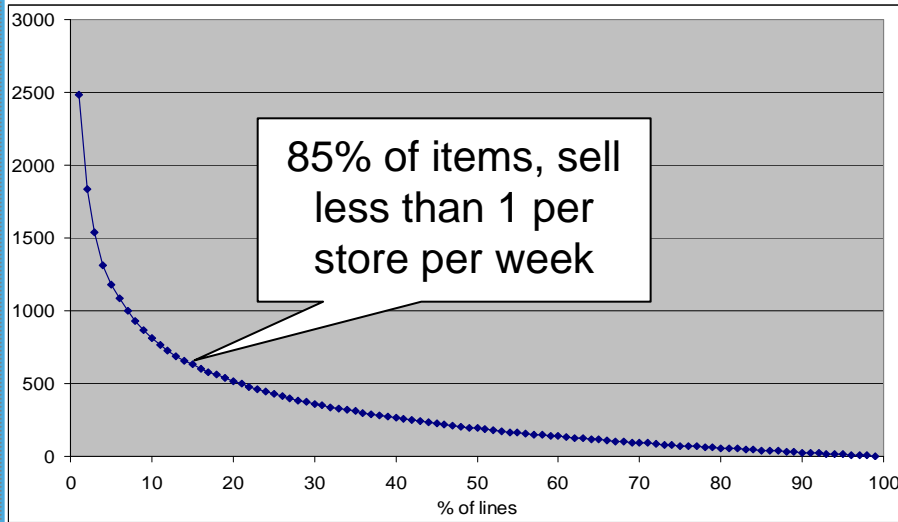
35% of Argos sales involve more than one channel
Internet Check & Reserve has grown by more than 60% each year



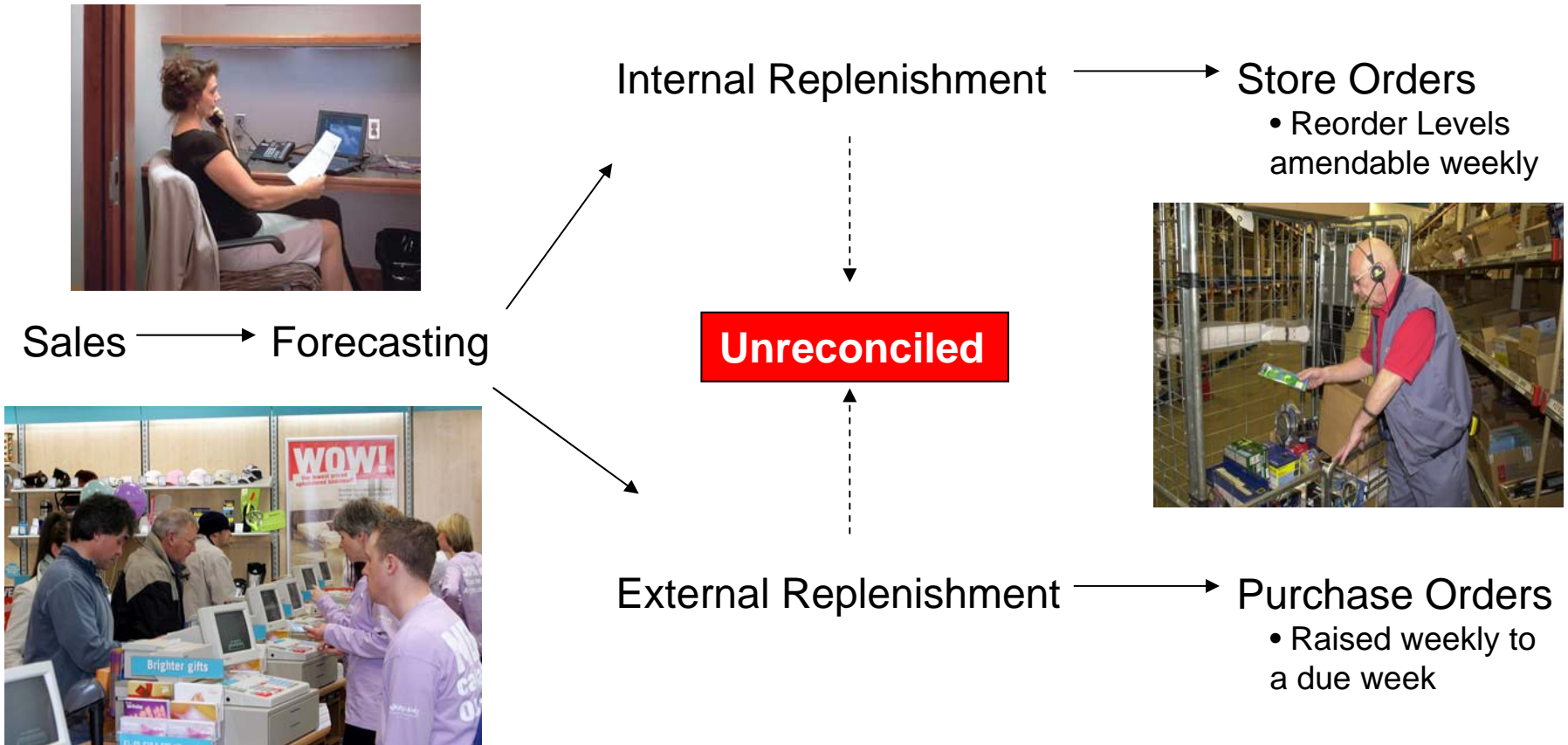


Supply Chain Transformation
- The Argos Challenge

Argos sells mainly slow-moving products, with long supplier lead-times and has an extreme Christmas sales peak.



Stock Management systems were outdated and disconnected



“Mainframe based merchandising, forecasting and replenishment, developed upto 20 years ago.”

Supply Chain Transformation Journey



The Challenge...

- A strategic review of supply chain capabilities identified that these would constrain ambitious plans for future growth and multi-channel development.
- Action was required to develop an end-to-end solution that would allow Argos to develop their lean business model further based on responsive service to small footprint constrained stores.

The Approach...

- In 2001, Argos embarked on a supply chain transformation journey – the final and most ambitious phase targeted Replenishment and Core Operations (Project RACO)
- Argos partnered with Accenture and Oracle to bring together business knowledge, world first technology and change management expertise.

The Results...

- The project has delivered world class supply chain capabilities to support Argos' future growth plans.
- New technology has been co-developed and implemented without disrupting the customer experience or service to stores.
- The project has already delivered tangible benefits, ahead of the plan at this stage and is on track to exceed its target by 2010.



Supply Chain Transformation Journey



Project RACO (Replenishment and Core Operations) aimed to use technology to unlock substantial benefits in the Argos supply chain:



World Class
Replenishment
Capabilities

- To develop advanced replenishment capabilities to improve the trade-off between stock holding and availability
 - Increased product availability for the same level of stockholding
 - Reduced inventory in stores and warehouses at current levels of availability
 - Increased sales from greater product range stocked within the constraints of the current store footprint



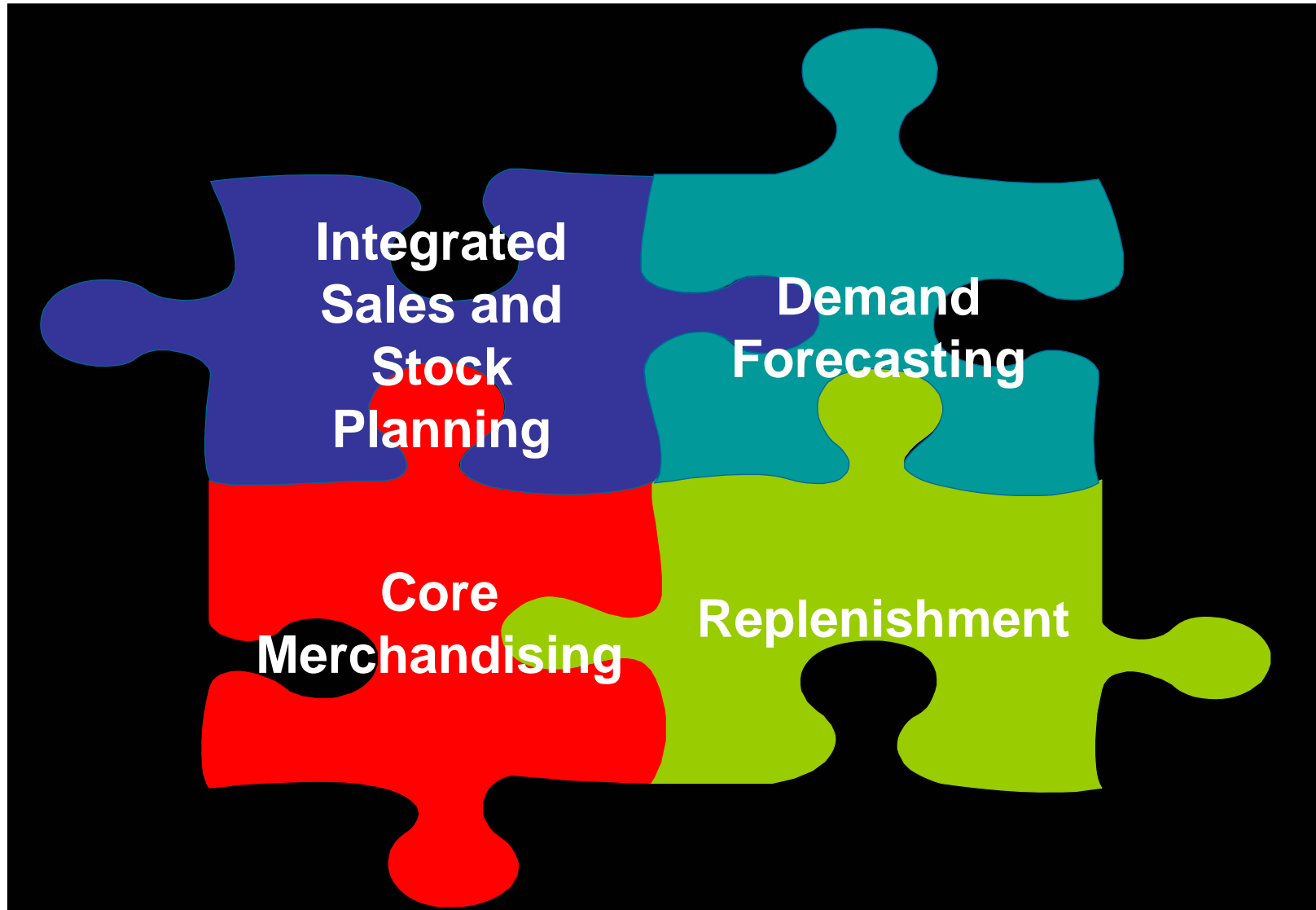
Remove
Constraints

- To underpin the above with new systems to manage core transactions using world class “best of breed” technologies
 - Remove potential constraints to future growth of the Argos business model (e.g. size of product range, number of locations, pricing and promotional mechanisms)
 - Provide a single source of master data (products, suppliers, inventory and replenishment definitions) using Oracle RMS



Supply Chain Transformation
- The Argos Solution

Overview of the Argos Supply Chain Program.



How did Argos choose Oracle Retail Advanced Inventory Planning?



Intensive Project Appraisal Process

Business Requirements Driven Selection Process

- Functionality had to fit and grow with an evolving business model
- Future proofed to support our expanding customer service proposition
- Benefits thoroughly modelled prior to Board level approval
- Confidence gained as benefits presented were tangible and measurable
- Executive sponsorship from day 1 provides continued support and focus
- Risk management around being first with AIP

Project vs. Programme Mindset

- High magnitude of change to systems and processes
- High impact to the 'Heart and Lungs' of our Supply Chain
- Key stakeholders identified and engaged throughout
- No illusions that this was going to be easy or a quick win!
- It was clear from the beginning that external implementation expertise and resources were required

Partner Appropriately: Argos Partnered with Accenture and Oracle Retail



Choice determined by:

- Cultural fit with Argos
- Ability to bring new ideas
- Ability to challenge constructively

Shared replenishment vision

3 Partners - One Team

Accenture chosen for:

- Breadth of expertise and ability to bring knowledge from across organisation
- Ability to drive pace and maintain progress
- Ability to mediate with 3rd Parties during difficult times
- Ability to add quality resources at pinch points

All parties have managed to retain key resources on project from start to finish.



What has supply chain transformation delivered overall? ...First the integration of planning processes and systems...



Forecasting & Planning

- New demand forecasting and stock planning tools in 2003.
- Improved Category Management and Corporate Planning.
- Fundamental to future phases.
- Ensured business was working in a end-to-end fashion ahead of replenishment
- Ensure forecast accuracy was satisfactory for replenishment
- Risk mitigation to overall program as business change could be managed in bite sized chunks.
- Allowed implementation lessons to be learnt on lower risk aspects of the program.



What has supply chain transformation delivered overall? ...then a stable core merchandising system...



Core Merchandising & Operations (Oracle RMS)

- New core merchandising systems in 2005.
- Designed to be a flexible foundation for future business growth.
- Targeted at removing a number of business constraints (number of available product numbers, number of available store numbers).
- Targeted at establishing a better cost accounting method.
- Designed to provide a stable platform on which to implement replenishment.
- Built on successes and lessons learnt from first phase.



What has supply chain transformation delivered overall? ...finally world class replenishment capabilities.



Replenishment (Oracle Retail AIP)

- Improved replenishment processes and systems.
- Moved from reactive to proactive stock management.
- Moved from checking each line each week to daily alert driven workflows.
- Better planning and management of stock throughout the Supply Chain.
- Reduction in inventory and / or improvements in customer availability.
- We are currently completing the rollout across our business, c70% of sales and 51% of SKUs now replenished through AIP.

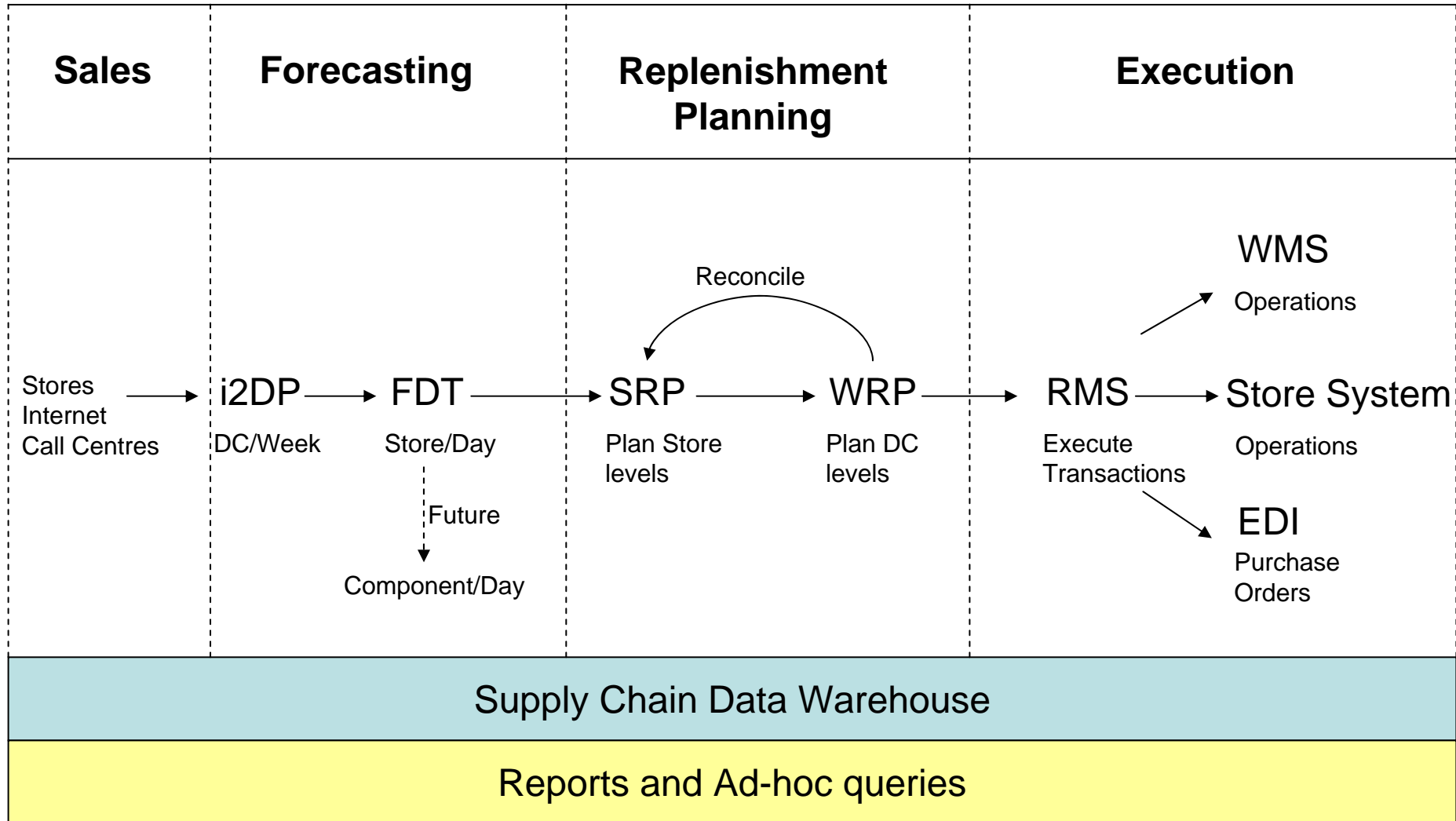




Supply Chain Transformation

- Replenishment and AIP in more detail

Throughout the supply chain program we worked towards getting the end game solution right.

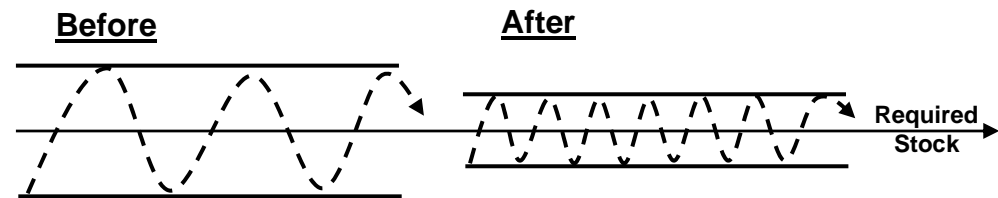


We were clear about what we wanted to achieve from deploying new replenishment capabilities ...



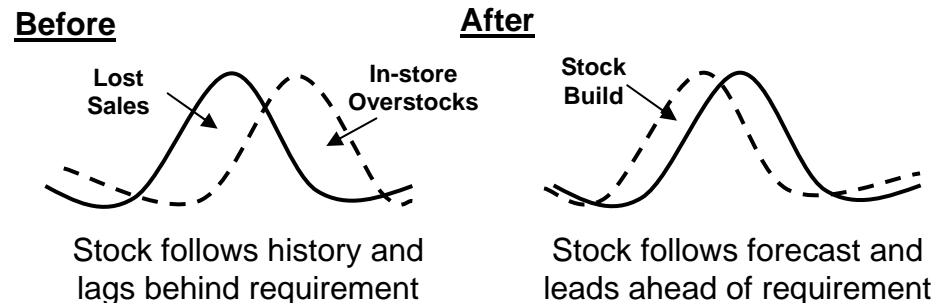
- Replenishment based on store level forecast at SKU/day rather than a weekly aggregate view with high levels of manual interventions
- One version of stock data – new merchandising system replaces multiple stock balances on mainframe legacy systems
- Daily stock management calculations replace the weekly calculations - changes in customer demand are reflected in store stock targets, stock movements throughout the distribution network and supplier orders on a daily basis
- Due day deliveries rather than due week enabling lower levels of safety stock
- Exception based alert driven ways of working allows users to focus on priority issues and proactive supplier collaboration
- Advanced replenishment algorithm (based on a Poisson distribution of probability of sale at SKU/store/day level) means that replenishment plans are a closer fit to actual demand

Concept 1: Daily Review



- Move from weekly activity on weekly data to daily activity on daily data
- Corrective action is more timely and responsive
- Actual stock moves within a tighter range of required stock.

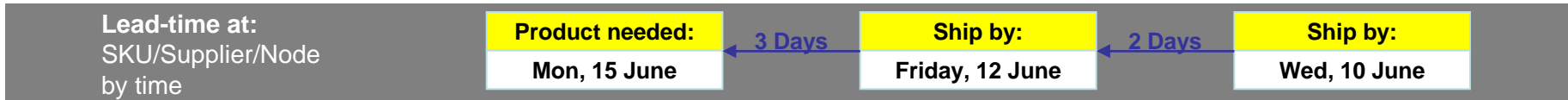
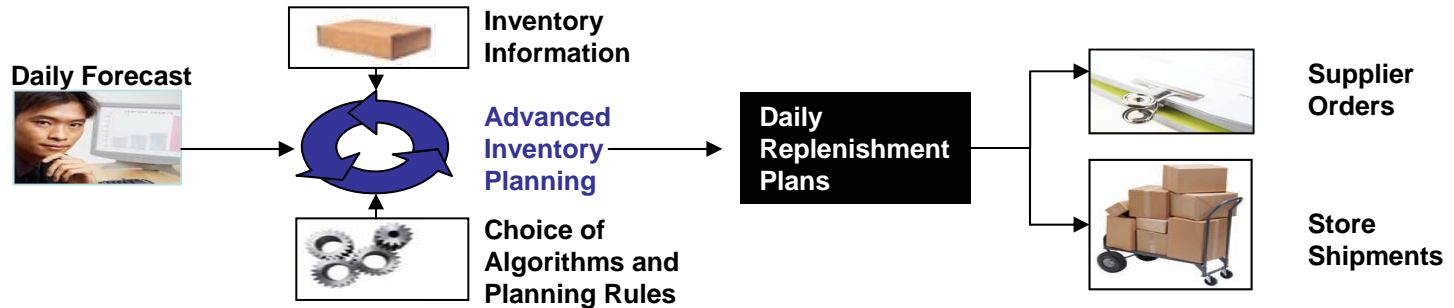
Concept 2: Proactive Demand Forecasting



Concept 3: Advanced Replenishment Function

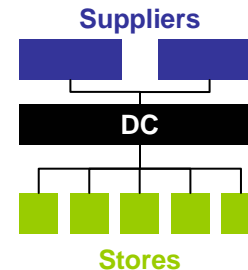
$$\text{Availability} = f \left(\begin{array}{l} \text{Safety stock} \\ \text{Forecast accuracy} \\ \text{MOQ} \\ \text{Demand units} \\ \text{Lead time} \\ \text{Error rate} \end{array} \right)$$

...Oracle Retail Advanced Inventory Planning application provided the required capabilities.



Example Constraints:

- Delivery Schedules
- Availability
- Safety Stock
- Store Receiving Schedules
- Product Space



- Order Multiples
- Rounding quantities
- Product Shelf Life
- Outbound constrained capacity
- Presentation and Promotional stock

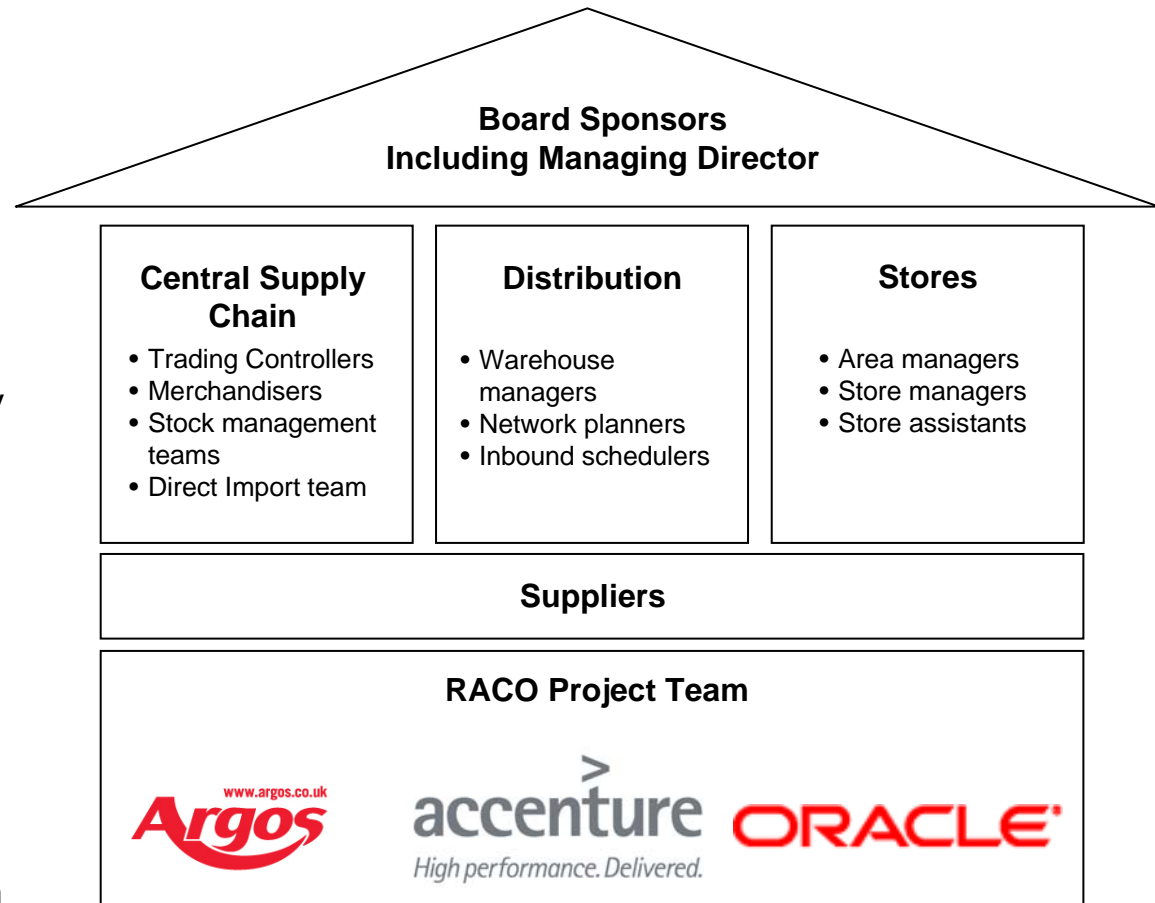
The Oracle solution addresses the complex challenge:

Oracle Retail Advanced Inventory Planning enables the creation of realistic, forward-looking, constraint-based replenishment and allocation plans across the supply chain and converts these plans into orders and transfers. It combines time-phase replenishment and allocation algorithms to produce a receipt plan based on demand forecasts, replenishment parameters, and inventory availability at the numerous points within the supply chain.

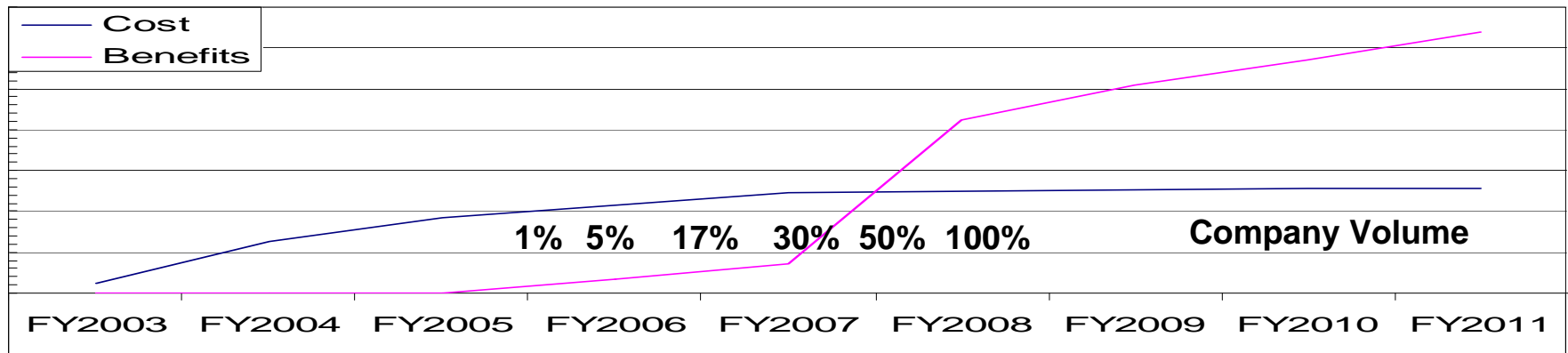
A best practice programme management approach underpinned successful delivery



- The project received board level sponsorship from the outset
- Up-front clarity of the business case and priorities of the project meant that all parties were aligned and engaged from day one
- Governance and quality assurance process were supported extensively by Accenture/Oracle, a key feature of the approach.
- High calibre business users were selected to support design/build/test and pilot phases then returned to their line roles during rollout to act as champions for change
- A network of change agents were selected from across the business with weekly communications and feedback groups



Projected benefits realization and replenishment implementation timeline



Cash Investment of > £40M

AIP Total Benefits > £100M

2004 2005 2006 2007 2008

Analysis and Design

Build

Test & Train

5 waves of Pilot

6 Waves of roll-out

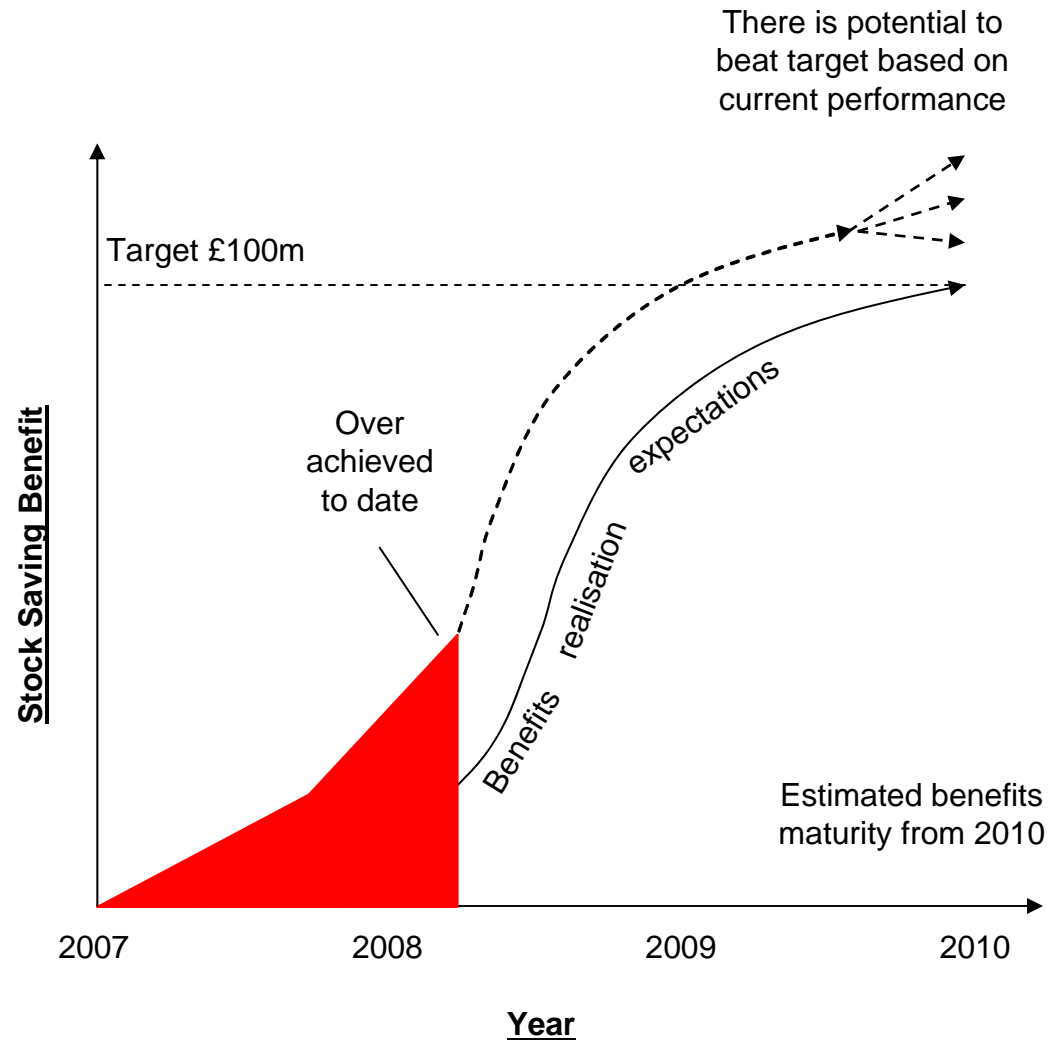
RMS Live Aug '05

AIP Live April '06

**Slow growth in volume as system stabilised
An important time to learn
Iterative process to refine and improve the solution**

AIP Results to Date

- Stock reduction (cash flow) benefits realisation are on track against original plan of over £100 million per year by 2010 in reduced inventory costs
- Stock benefits delivered to date have exceeded financial targets this year.
- Benefits have been achieved whilst maintaining Argos' traditionally high customer availability.
- Benefits are even greater when you remove the effects of weather dependent seasonal stock variations
- Potential exists to exceed the benefits case by exploiting additional opportunities:
 - Improving supplier delivery performance
 - Lead time reduction – particularly for direct import suppliers
 - Tuning of forecasts for local patterns of demand
- We are planning to reinvest the stock savings in either range or availability.



Implementation Case Study: Understanding the Supply Chain end-to-end



- AIP integrates with applications across the business so problem resolution requires in-depth knowledge of the whole supply chain
- New processes can highlight otherwise hidden issues in related operational areas.



Data as well as stock must flow along the supply chain – from supplier to consumer



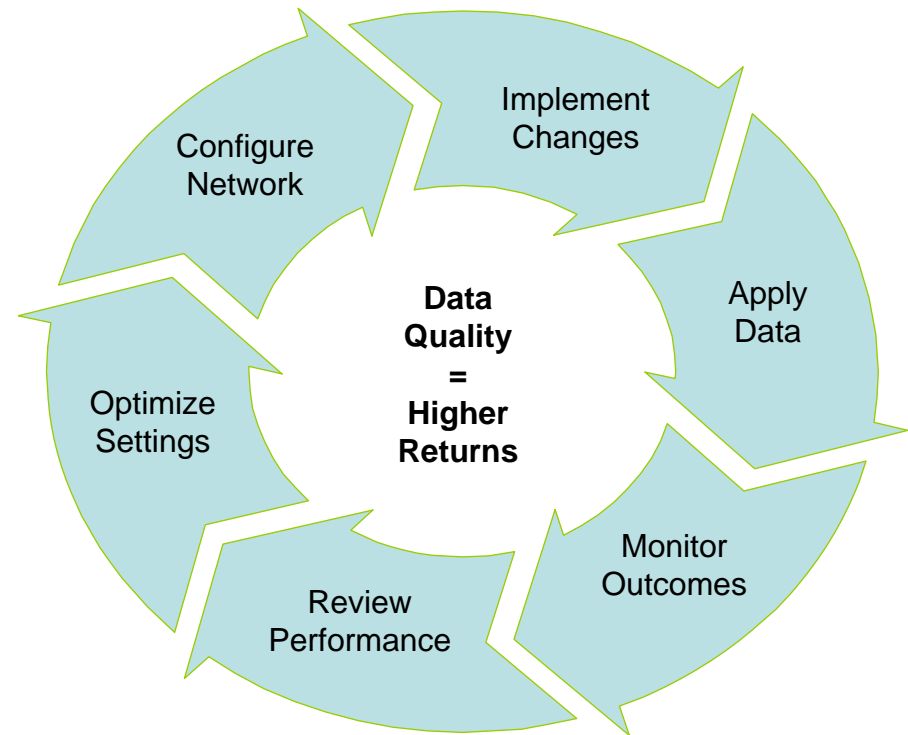
- Importing product from the Far East provides lower unit costs but the extended Supply Chain drives additional stock into the network and may reduce data quality.
- This caused unwanted manual processes due to rate of expansion of Far East sourcing within the business.

Implementation Case Study: Continuous Improvement and Optimisation



Within supply chain the importance of quality data meant that organisational structure had to adapt. We now have an embedded continuous improvement cycle which captures data and supply chain performance, optimises AIP and strives to beat availability and cost saving targets.

- Workbooks control the system: we kept them simple, this improved usage of the tool and accuracy across the whole supply chain.
- Customer availability issues will occur: data integrity and visibility is key to dynamic root cause analysis and rapid resolution.
- We invested in a dedicated supply chain optimisation team. They collaborate with users, tuning the tool to maximise the benefits.
- From the outset we designed a set of supplementary reports to support the users.



Key Lesson: Keep it simple at first and build on success



Supply Chain Transformation
- Change Management Lessons

Change Management was crucial as you have to win hearts and minds



Managing Business Change is the greatest challenge.

- End users can only deal with a finite level of change at any given time and will need support throughout
- New processes have to be well defined and realistic to be credible
- The rate of change will be operations led - the business has to want it.
- Once functionality is stable use initial teams as advocates
- Therefore the overall pace of roll out will be determined by those most impacted
- In order to drive the programme you cannot take shortcuts on resourcing
- Do not forget to invest in training, communication and support

Benefits realization depends upon it

Change Management Case Study: To maximise the benefits we tackled supplier and DC inefficiencies.



Supplier Successes



- Right first time product and pallet presentation (labelling, pallet building, TiHi) increased from 68% to 99%.
- Move from due week delivery window to due day deliveries
- Supply performance shared via Extranet with suppliers enabled us to work more collaboratively with suppliers to target improvement and reduce the requirement for safety stock

Distribution Centre Successes



- Right first time presentation of pallets at goods-in eliminated the need for costly rework
- Suppliers not adhering to delivery guidelines were chased or rejected contributing to achieving palletisation and labelling compliance
- Increased DC productivity – Goods-in efficiency increased by over 50%.
- 100% of goods in are now physically receipted on the system on the day of delivery

Change Management Case Study: Customer benefited through preparing stores and trading teams rigorously



Trading Team Successes



- 3,000 man days invested in best practice stock management training and education
- Business readiness performance tracked to ensure that teams are fully prepared for next phase of processes and systems
- Improved organisational structure implemented where new job roles are tailored around best practice processes

Store Successes



- New layout in all Argos store stockrooms – products now ordered by rate of sale rather than SKU number (faster selling items are more accessible and delivered to customers more quickly)
- Freed up additional space in small stock rooms and increased the speed of service
- Foundations laid for “meaningless” product numbers which removes the system constraint on range breadth



Supply Chain Transformation
- Summary

Supply Chain Transformation Lessons

- Understand your overall supply chain strategy before you start
- Delivering the vision should be led by a compelling benefits case
- Ongoing executive sponsorship drives results
- Maintain engagement of a wide stakeholder group
- Governance is a core competence
- Proceed with caution closely managing cost vs. time vs. quality
- But ...it is impossible to test every scenario - at a certain point it is better to go live and drive out further opportunities to improve



Argos

don't shop for it...
Argos
it

3 million people a week can't be wrong!

