

Helping Loblaw achieve high performance
through Supply Chain transformation



 High performance. Delivered.

Client background

Loblaw Companies Limited is Canada's largest food retailer and a leading provider of drugstore, general merchandise, and financial products and services. Through its portfolio of store formats, Loblaw is committed to providing its customers with a wide, growing and successful range of products and services to meet their everyday household demands. Loblaw operates more than 1,000 corporate and franchised stores, and employs more than 135,000 full-time and part-time employees. In 2012, Loblaw generated revenues of approximately CAD\$32 billion (US\$32 billion).

Loblaw operates 30 distribution centers and runs the largest fleet of trucks in Canada. Loblaw is constantly working to improve the efficiency of its supply chain in an effort to ensure that the freshest products get to its customers, quickly and at the lowest cost.

Business challenge

Like many industry leaders, Loblaw long has acknowledged that supply chain management is an essential contributor to operational excellence. Yet, a convergence of factors—from new competitive threats that made customer service more important than ever to limited historical investments in supply chain practices and enabling technologies—had made improving supply chain performance an increasingly elusive goal. The retailer recognized that inadequacies within its existing supply chain capabilities were taking a toll on its ability to effectively serve its customers and deliver value to shareholders. Challenges were particularly pronounced in three key areas:

Transportation. Loblaw's legacy transportation network was fragmented and managed on a regional basis, with few standardized processes and no common technology platform. Additionally, transportation planning activities were conducted independently at each of Loblaw's many distribution centers, meaning that inbound and outbound operations were rarely integrated and transport assets were not optimally utilized.

Warehousing. As its sales volumes grew, so did the number of products that needed to be efficiently managed and distributed. This posed a challenge because the retailer's legacy distribution center network was supported by an

aging infrastructure and comprised a fragmented collection of regional centers and outside storage facilities, which ran separate IT systems. In addition, the network model was more focused on storing products than enabling their effective flow to consumers. This impeded the company's ability to provide superior product quality, availability and freshness.

Forecasting and replenishment.

Loblaw recognized the need to improve its demand planning capabilities and, specifically, its ability to accurately forecast product demand and replenish inventory in a timely and optimal manner. Under its former way of operating, Loblaw's inventory levels tended to be elevated, while its consumer shelf availability was lower than desired. This misalignment made it difficult for the retailer to maintain the service levels and product freshness its customers desired.

To maintain the company's position as a best-in-class retailer, address its operational cost pressures, and better meet its customers' demands for product availability and freshness, Loblaw's leadership team knew that a complete supply chain transformation was in order. Such a transformation would require investments in new supply chain capabilities and enabling technologies, as well as an upgrade to the company's physical supply chain infrastructure. Importantly, Loblaw wanted the transformation effort to achieve immediate benefits to quickly offset program investments and to help maintain stakeholder engagement and support.

For support in designing, building and delivering the new "flow" supply chain capabilities that would help Loblaw maintain its competitive position and serve as a platform for future growth and profitability, the retailer turned to Accenture. Several factors influenced this decision, including Accenture's deep operational supply chain capabilities, strong local team skills, and collaborative approach to delivering value and high performance.

How Accenture helped

Accenture quickly assembled a global team of professionals with deep supply chain and technology knowledge to work with Loblaw's business and supply chain leaders to define the retailer's vision for its supply chain. Loblaw and Accenture agreed that the transformed supply chain

capability needed to be national in scope, comprehensive in its functionality, and highly responsive to rapidly changing market conditions and customer demands. It also needed to be based on a "flow" (as opposed to "storage") model that would make it possible for Loblaw to better ensure the quality, freshness and availability of its products.

Given the critical nature of the change that was being undertaken, the team made sure the transformation program was underpinned by a robust business case, rigorous program management and governance structures, field tested approaches contained within the Accenture Delivery Methods, and ongoing cost/benefit analyses. And because it was important to generate immediate results, the team focused on implementing simple solutions, delivered in a fast, yet manageable, sequence. Throughout the program, Accenture supply chain professionals were embedded in the Loblaw business and worked hand-in-hand with client teams to facilitate the transfer of knowledge and insights, as well as to accurately understand the retailer's challenges, the solution requirements and how the transformation would affect all stakeholders.

The joint team carried out the transformation in three key phases. During the first phase, solution design, Loblaw and Accenture identified core supply chain business requirements and capabilities and designed the end-to-end processes needed to support the "flow supply chain" vision. The solution design phase—which was strongly influenced by customer and store needs—addressed several supply chain imperatives, including improved on-shelf availability, store- and shelf-ready shipping and packaging, quality and freshness, as well as balancing cost-to-serve. In addition to designing the solution, the team developed a five-year transformational road map to keep the program on track. This roadmap not only aligned an aggressive deployment schedule to milestone events, but also balanced the delivery of new capabilities and systems with available resources and the retailer's capacity to absorb change.

In the second phase of the transformation, capability delivery, the team implemented a deployment plan that was designed to enable Loblaw to begin slowly and then accelerate change through a "crawl, walk, run" model. Each

step of the capability delivery plan built on the proficiencies and confidence gained in previous steps. Specifically, the joint Loblaw and Accenture team delivered new capabilities in four areas:

"Super user" transportation. Loblaw and Accenture streamlined and standardized a number of transportation management and operations processes and established four regional transport planning centers. In parallel, the team deployed the JDA Transport Management System to these new planning centers (and to all Loblaw distribution centers). To make sure that Loblaw would be able to generate the desired benefits from the new system and processes on an ongoing basis, the team established a "super user" program, which aimed to build deeper systems-related skills within Loblaw's transport operations. Importantly, this program also introduced standardized performance metrics across regions and established a National Transportation Center of Excellence to support the transport management solution and long-term process improvements.

"Flow" warehousing. Together, Loblaw and Accenture delivered one of the fastest ever deployments of the Manhattan Associates Warehouse Management System. The first distribution center went live within just eight months; the system was deployed to 14 centers within three years. In addition to carrying out these deployments in two separate releases and initiating Loblaw's first system-enabled "product flow" pilot program, the team introduced leading practices into the distribution center network to improve product freshness and extend shelf life. The team now is working towards the third release of the warehouse management system, which will be integrated with Loblaw's core SAP ERP Retail suite and also introduce apparel-specific functionality to support the retailer's quickly expanding Joe Fresh apparel brand.

Integrated forecasting and replenishment. Rather than relying on warehouse shipment data to plan for demand and replenish inventories, Loblaw wanted to establish an integrated capability based on consumer demand. To enable this vision, Accenture helped Loblaw design and develop a robust Integrated Planning, Forecasting and Replenishment (IPFR) solution using JDA. The initial system implementation

supported the forecasting and replenishment activities for 26 distribution centers across 37 categories. The team currently is working on preparing the next release of IPFR for store replenishment, which will connect consumer demand at stores to Loblaw's planning network..

Replenishment Services. Additionally, resources from the Accenture Delivery Center in Mumbai, India, are managing robust inventory planning and replenishment processes for Loblaw's general merchandise and home ware product lines. This arrangement is improving service levels and allowing Loblaw professionals to focus on other strategic supply chain opportunities.

The third phase of the transformation, value acceleration, was a critical component of the overall transformation plan and was designed to deliver fast results, maintain the transformation momentum, and produce cost savings that could be used to fund the subsequent delivery of new supply chain capabilities. Over a nine-month period, the team identified (and pursued) a number of opportunities to generate "quick wins." For example, the team launched a fresh produce initiative, which increased store deliveries and subsequently led to reductions in shrink, inventory and required lead times. In addition to generating fast benefits, the value acceleration approach enabled the team to pilot and test the design concepts of transformational solutions prior to full deployment.

High Performance delivered

With Accenture's help, Loblaw has successfully transformed its core supply chain capabilities. With a focus on improving transportation, warehouse management, and forecasting and replenishment, the retailer has not only improved supply chain performance, but also has implemented a robust and end-to-end set of skills that effectively enables the flow of products to the market place. According to Rob Wiebe, senior vice president of supply chain at Loblaw, creating a "flow supply chain" was critical for Loblaw. "To retain our position as a best-in-class retailer, we knew we needed to move away from a supply chain that was focused primarily on the storage of products. Accenture helped us manage that transition—and did so in a way that generated both quick benefits and long-term value."

Throughout the transformation program, the Accenture team applied deep skills in supply chain operations, management consulting and technology integration, proven methodologies and alliance relationships with leading technology suppliers to deliver a solution that addressed Loblaw's business requirements. Importantly, the team focused on crafting a program that delivered quick results. For example:

- In the area of transportation management, the new solution has enabled Loblaw to plan and manage more than 5,000 shipments per week. Redesigned and streamlined transport processes improved equipment utilization and freight visibility, while driving efficiencies and millions of dollars in cost savings.
- In the area of warehouse management, the solution eliminated costly outside storage facilities, streamlined Loblaw's complex distribution network, and established a single warehouse management system. As with transportation, these sorts of changes have generated significant annual benefits; further gains are expected once all the key project phases are complete.
- In the area of forecasting and replenishment, the emphasis has been on introducing new and integrated planning, and forecasting and replenishment processes and technologies. The solution will allow Loblaw to base its forecasts and replenishment activities (from the shelf up to the distribution center) on true consumer demand. Additionally, by managing Loblaw's inventory planning and replenishment processes via an outsourced delivery model, Accenture has helped the retailer further improve service levels and reduce inventory.

Accenture's experience and ongoing High Performance Business research have confirmed that leading retailers use the power of their supply chains to win the war for customers and achieve competitive advantage. These companies build specific capabilities that enable them to achieve superior service and in-stock performance, relentlessly manage costs, react quickly to customer trends and capitalize on growth opportunities. With Accenture's help, Loblaw has developed just such capabilities and, in the process, charted a clear course toward high performance.

About Accenture Management Consulting, Operations

Accenture is a leading provider of management consulting services worldwide. Drawing on the extensive experience of its 16,000 management consultants globally, Accenture Management Consulting works with companies and governments to achieve high performance by combining broad and deep industry knowledge with functional capabilities to provide services in Strategy, Analytics, Customer Relationship Management, Finance and Enterprise Performance, Operations, Risk Management, Sustainability, and Talent and Organization. Accenture Operations consulting services help clients develop more dynamic, innovative and high performing Supply Chain and service operations capabilities to enable rapid response to changing customer demands and market opportunities.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 259,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.