Delivery Strategy At Leading Luxury Chocolate Company: Capturing Lost Sales Opportunities Through New Planning And Delivering Capabilities

The Challenge: A leading luxury chocolate company had leveraged its well-respected brand name and lean entrepreneurial organization to achieve 8 years of double-digit earnings growth. Despite this spectacular performance, the sales force had estimated that as much as 15% of sales during the peak Christmas shopping season was being lost because of supply chain issues. Retail store managers felt that unpredictable delivery was imposing a 10% cost penalty on them, and wholesalers claimed that 10% of their sales were lost because they were unable to respond rapidly enough to spikes in demand. Unwilling to sustain these visible losses, and suspecting that even more opportunity was hidden below the surface, management called for our operations expertise to retool their delivery strategy.

The Partnership:
<u>Analysis</u>: The existing supply chain faced many tight constraints. A highly perishible frozen product was being distributed from one DC to nationwide store locations, each with severely limited storage space. Demand was highly volatile and hard to predict, and production limitations required that orders be placed 4 months in advance. Finally, the only current economically viable method of distribution was LTL shipment alongside other cold goods.

Our initial diagnostic found that:
- Delivery issues perceived by managers were real and costly
- Regional distribution could be effective
- Chocolate assortments needed to be customized logistics could not be simplified by standardizing fully between retail and wholesale assortments
- It would be economically sound to increase delivery frequency during the peak season and hold stock in regional warehouses
- Many organizational processes were functionally adequate, but undermined by poor communications.

<u>Strategy</u>: After a careful evaluation of where in the operations the greatest degree of influence on bottom-line results lay, our team recommended the key initiatives summarized below:

Integrate Planning Process	**Develop New Pick/Pack Capabilities**	**Create Responsive Delivery System**
• Formalize preseason planning • Harmonize communications across distribution, retail planning, sales, accounting, and direct fulfillment	• Pre-pick and pack assortments (before high season) to 75% of demand predicted by current forecasting methodologies • Develop a regional pick/pack capability for top 12 products to increase flexibility	• Adjust delivery frequency to match high-season velocity and retailer inventory capacity • Create an IT solution to automate and expedite corporate retail order entry

<u>Execution</u>: To build organizational momentum, test the new processes, and gather feedback for refinement, our 3-person team designed pilot tests for the most intricate of the solutions:
- 4 sales districts, representing a significant portion of seasonal sales, were chosen to test the pre-pick efforts. For the pre-pick pilot, product was packed to 75% of forecast seasonal sales and held in the primary DC.
- For the custom-pick implementation, the top-12 SKU method was applied to 435 retail stores. These products were made available to the stores 1 week into the Christmas season and continued to Christmas day.
- For direct fulfillment to corporate customers, a 6-store test was conducted in the Boston area. Retail demand forecasts were gathered from corporate customers and used by planners; order entry and customer service functions were performed by dedicated resources; and retail test store managers and assistants were trained in the processes for order placement.

The Results: Post-season analysis showed a considerable amount of improvement from the 3 pilot tests: retail delivery performance improved 100% in 3 of the 4 test sales districts; direct fulfillment of retail corporate orders had an 85% first pass yield for fax, e-mail, and phone orders with 100% of issues resolved within 10 minutes; inventories decreased 10% while operating costs decreased slightly; and wholesale customers were so pleased with custom-picked assortments that they requested the same service for the next season.

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