



Los Angeles Transportation Club

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***The New Supply Chain Agenda:
The Five Steps that Drive Real Value***

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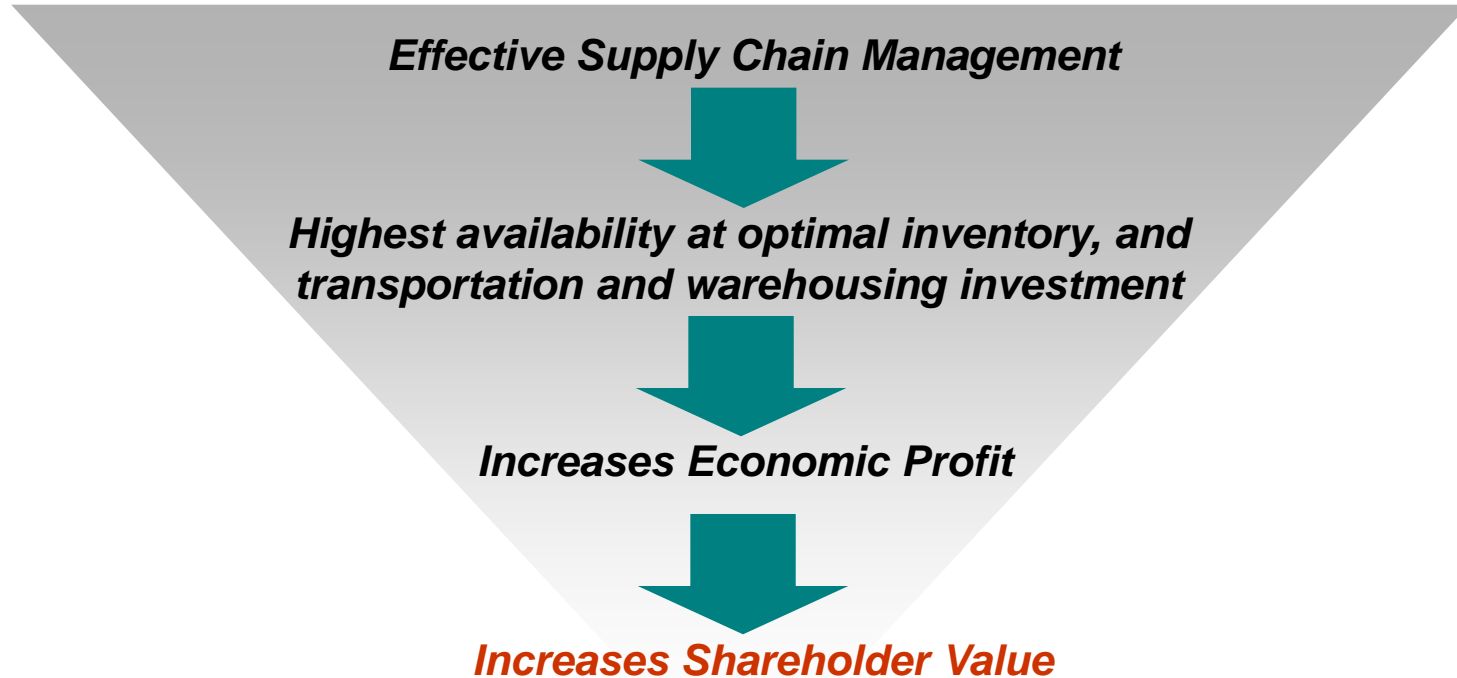
The Outline

- **The Theory**
- ***The New Supply Chain Agenda:
The Five Steps that Drive Real Value***
- **Focus on Collaboration**
- **Example Case Studies**



The Premise

Drive enterprise cross-functional integration





Supply Chain



“The Fundamental Flow of Materials and Information from Suppliers, through the Firm, to Your Customers”



Economic Profit

Salary = \$50K

Investment = \$100K

First Year Revenue = \$120K

What is my EP?

Use of EP in Supply Chain Decision Making

Frequency of Replenishment Example

Problem:

- Frequency of delivery and inventory are inversely correlated

*Original Weekly
Delivery Schedule*



*Adjusted Weekly
Delivery Schedule*



=

Positive EP



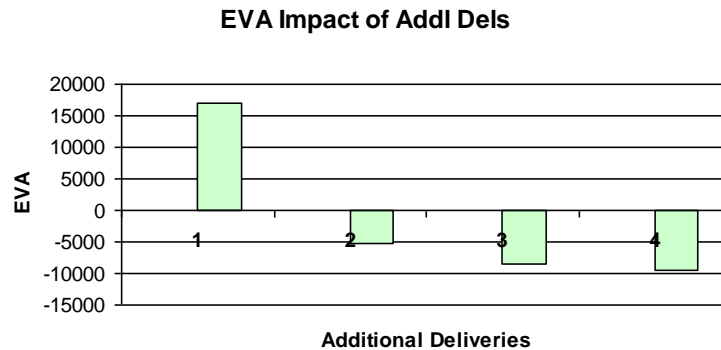
OR

Negative EP





Example of EP in Supply Chain Decision Making



- Measured EP impact of incremental deliveries above baseline of one delivery per week



= Positive EP of \$17K



= Negative EP

Conclusion:
The optimal delivery frequency is twice per week



The Critical Supply Chain Ratios

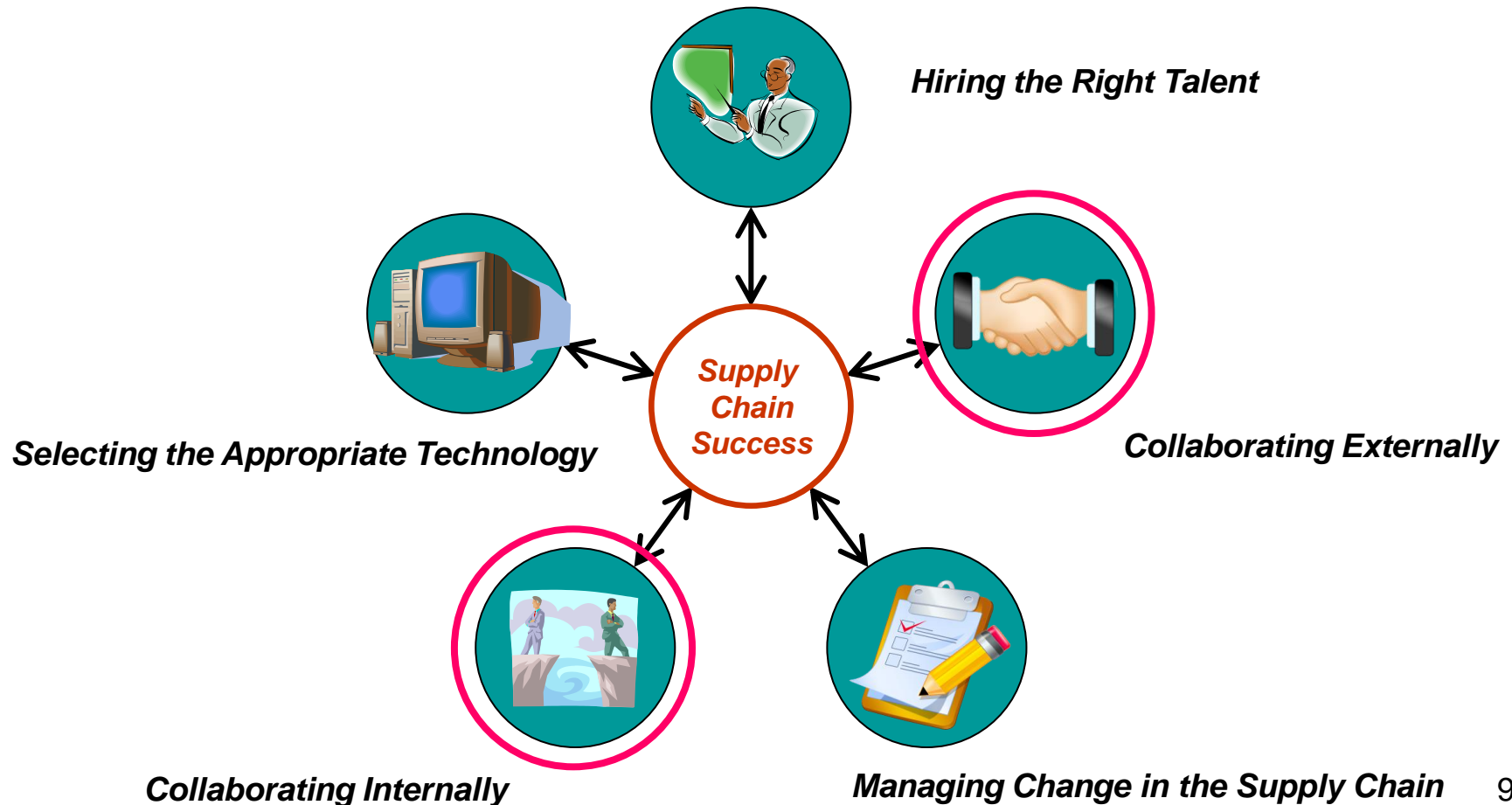
Return on Invested Capital = Net Profit Margin x Asset Turnover

Positive EP = Return on invested capital greater than the WACC



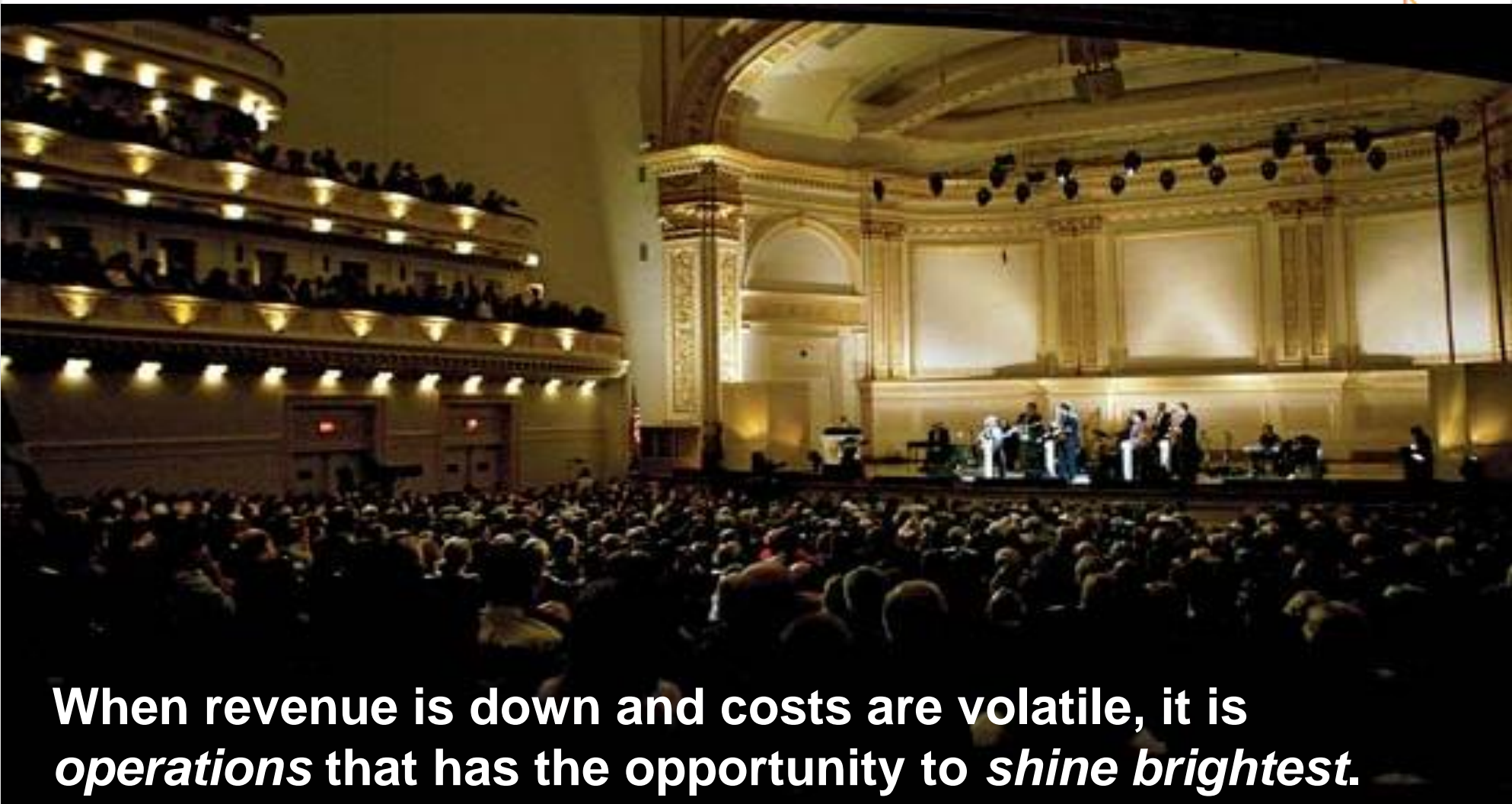


Supply Chain Strategy and the Five Steps to Achieving Excellence





The Supply Chain Carnegie Hall



When revenue is down and costs are volatile, it is *operations* that has the opportunity to *shine brightest*.



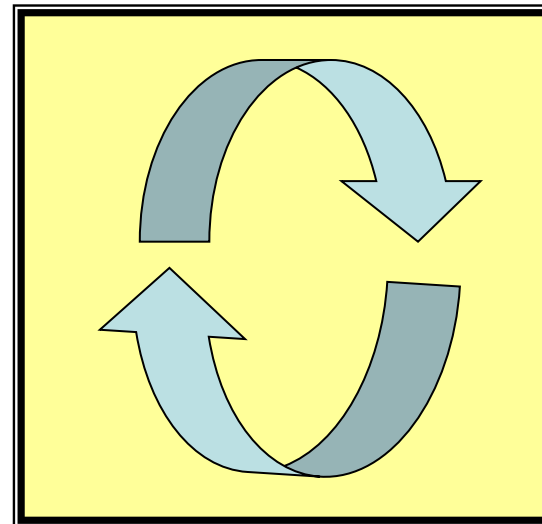
Collaboration: Luke and Darth





The Virtuous Cycle

- **Frequency of Interaction**
- **Level of Commitment**
- **Trust**





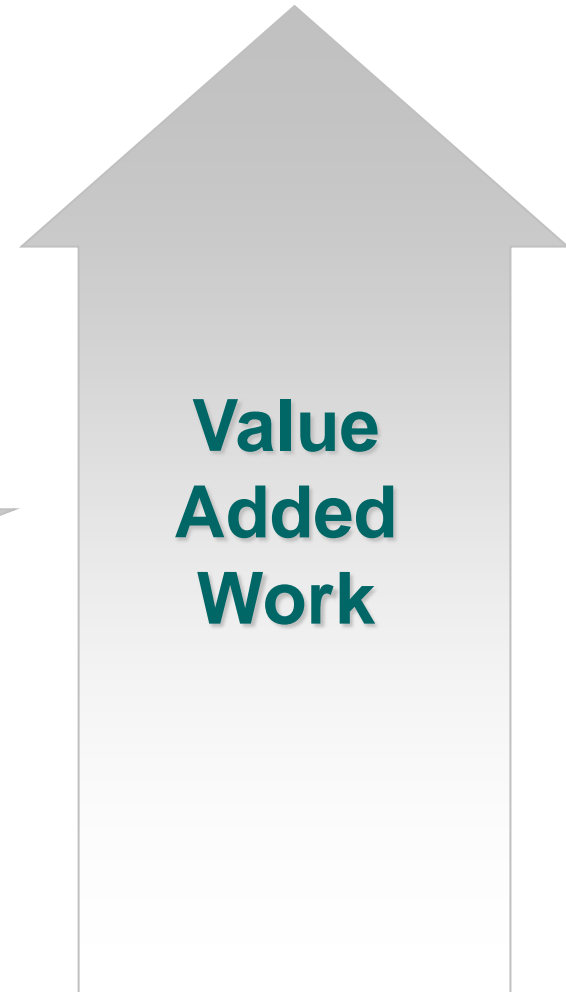
Collaboration

- **What it is:**
 - Shared responsibility for results up and down supply chain
 - Mutual commitment to one another's success
(Clark/Fujimoto)
- **What is needed:**
 - Problem Solving – Bring Best Practices
 - Knowledge of the Enterprise
 - Good Communication

Best Customer / Best Supplier



The Meaning of Lean and Types of Work





Types of Collaboration

**Customer
Collaboration**

Lean and Green

**Supplier
Collaboration**

Inbound and Reverse Flow

**Internal
Collaboration**

Drive Freight Leverage



Customer Collaboration: Lean and Green

- **Objective:**

Reduce Customer carbon foot print and eliminate packaging waste

- **Hold joint customer/supplier kaizen event**
- **Implement office products “supermarket”**
- **Implement Managed Delivery**
- **Implement Returnable Totes**

- **Result:**

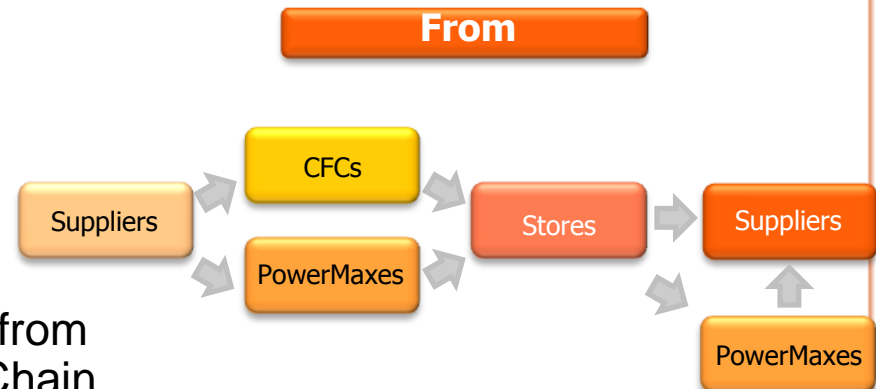
Awarded 2009 Boeing Supplier of the Year

Supplier Collaboration: Inbound and Reverse Flow

Objective: Reduce inventory and costs while maintaining availability

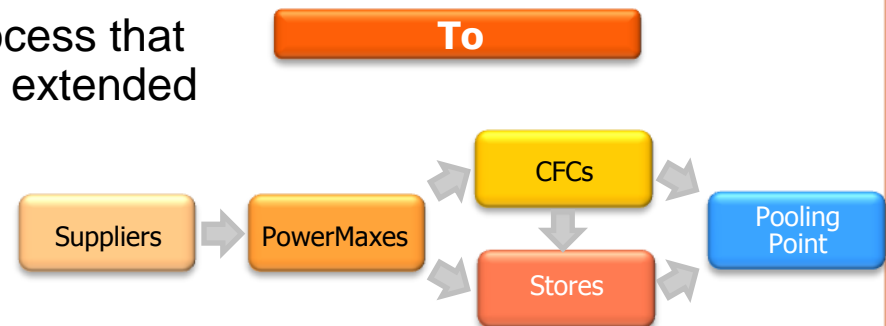
Inbound Freight

- Collaborate with suppliers to lower total supply chain costs
- Leverage PowerMax to feed Customer Fulfillment Centers (CFCs) and stores
- Suppliers and OfficeMax share savings from reducing costs in the extended Supply Chain, potentially improving gross margin
- Creates additional backhaul revenue opportunities



Reverse Logistics

- Creation of a cost-effective Returns process that lowers the cost of vendor returns to the extended supply chain
- Increases productivity of store labor
- Cost-effective method to re-balance inventory and reduce markdowns
- Enables green initiatives





Internal Collaboration: Retail Freight Leverage

- **Objective:** Overcome shrinking sales and volatile fuel costs
 - Palletize loads to stores
 - Make loads easy and quick to unload
 - Deliver to stores seven days per week any time store is open
 - Implement flat stop charge
 - Implement delivery skipping
 - Shift trailer capacity target from 1800 cube to 2500 cube
- **Result:** Reduced retail miles driven by 24% or 6.9 million miles from 2007 to 2009 while reducing per store inventory by 16% YoY and maintaining less than 90 outs per store



The Supply Chain Outcomes

Availability → *Sales Growth*

Inventory Productivity → *Cash Flow*

Cost Productivity → *Margins*

Highest availability at optimal inventory, and transportation and warehousing investment



In Summary

Drive enterprise cross-functional integration

