

The Gazette

MONTREAL | FRIDAY, OCTOBER 31, 2008 | SINCE 1778 | BREAKING NEWS AT MONTREALGAZETTE.COM

Helping retailers survive tumult – and thrive

KOM International also assists wholesalers and distributors in managing supply chains

THE GAZETTE

On a cobblestone street in a quiet corner of Old Montreal, the partners of KOM International Inc. are assessing the impact of worldwide economic tumult.

Allan Kohl, KOM's president, ponders the question and concludes: Yes, most retailers have done much to embrace new technology and improve their inventory control - a key element of keeping costs in line. Alas, many don't know how to use their technology very well, he said.



Allan Kohl (right), CEO of KOM International

They've been asked whether our retailers can survive the potentially dark days ahead, and they are in a good position to conjecture.

The average shopper has probably never heard of KOM, but many have felt its influence. They are experts in supply chain management - the people who help retailers, wholesalers and distributors ensure that department stores get hats and mitts in stock on time and at the right price, or that your local grocery store doesn't run out of tuna and peanut butter.

Founded in Montreal in 1962, initially to serve the supermarket industry, the company's client list now includes an assortment of retailers and manufacturers, mostly in North America, but also in Europe and Asia.

In his own words: "The computers are running the asylum."

"Just because you can do it doesn't mean you should."

And lastly: "For the past several years, volumes were up, profits were up and some companies did not focus on all available cost reduction opportunities"

Furthermore, retailers are going to have to change what he calls their silo-like mentality - departments within a company that focus intently on their operations without regard for other operations.

To explain what he meant, he recounted a recent visit to a major supplier to restaurants and other food services in Texas that was revamping its warehouse operations.

When they began doing the calculations, Kohl noticed that Styrofoam cups, paper plates and other paper items were taking up a lot of space.

When he asked why, the purchasing people told him that because these were inexpensive items, they were assigned to the most junior buyer - so the company wouldn't be out a lot of money if junior messed things up.

Purchasing should have talked to warehousing, he said.

The company shipped out about one truckload of the stuff a week but had about five truckloads in the warehouse, he said. When it overflowed its allotted space, staff - an expensive commodity - had to move it to other parts of the warehouse.

KOM Retail suppliers must grapple with trend toward regional warehouses

Keith Swiednicki, senior partner at KOM, said what companies need is a holistic approach.

He looked back to 2002, and found most of his grocery clients maintained three to 3.5 weeks' supply of dry goods in their distribution centre. Today, they have two to 2.5 weeks. "That's a significant reduction," he said.

But one key issue they must address now is transportation - whether they are using their trucks and distribution centers efficiently, Swiednicki said.

"There's lots of opportunity to do better," he said. "Maybe they focused too much on inventory. Perhaps they should change their delivery pattern and take a close look at how they select and replenish stock," he said. There's new technology available to help, he said.

Swiednicki has found that even when dealing with the best of the breed, KOM can still find savings of 15 to 20 per cent by taking a scientific approach.

Charles Fallon, another partner, said concern about transportation isn't just a reflection of gas prices. There's also a shortage of drivers in North America.

Swiednicki and Fallon said retail suppliers have to grapple with a trend toward regional warehouses. A few years back, the mantra was centralized control, but given the distances involved in North America, some retailers found that wasn't fast enough. Regional warehouses can reduce transportation costs, Swiednicki said, but this raises the risk of having too much inventory on hand.

Kohl said in the past, the mantra was "he who has the least inventory wins." That's changing as the carrying cost of inventory is offset by both transportation costs and labor costs for restocking, he said.

It costs less to ship and receive 10 pieces of an item one time than one piece of an item 10 times. He recalled seeing the shipping records for a major retailer that showed a marked difference between two groups of stores. Their volumes were the same, but one group received smaller quantities of each item more frequently than the other which received larger quantities of each item less frequently. In the stores that received less often, he said, the manager had taken the initiative to override the computer and say we don't need that many small receipts.

Some retailers say 50 per cent of the cost of shipping an item occurs in the last 50 feet, where staff - an expensive commodity - has to get the item to the shelf.

Partner Michael MacRae said some retailers, including smaller chains, may want to look at how items arrive at their back door. Rather than having manufacturers deliver goods, they might be better off with their own distribution centre, allowing control over how much comes to the store and when.

Finally, as sophisticated as many retailers are, Kohl said, "they are still not able to manage costs down to the level they would like."

As a result, they are pushing costs and risk farther down the supply chain, including not paying for merchandise until it is actually sold.

Those costs are not disappearing, they are just moving, and sooner or later, somebody is going to have to pay them.

"Whoever is being beaten up is going to have to increase their price," Kohl said.