SAINSBURY'S CASE

Transforming the Supply Chain

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1 EXECUTIVE SUMMARY

Where is Sainsbury's heading at? Everything looked as if all sails where trimmed to achieve fulfilment of their mission statement. "Our mission is to be the consumer's first choice for food, delivering products of outstanding quality and great service at a competitive cost through working 'faster, simpler and together." Source: Sainsbury Web site

Sainsbury's process reengineering represents a vivid subject of study. Browsing the internet we find a vast number of 'hits' analysing different segments of this massive change. In early publications we find many exited allies encouraging their plans. Later on the articles and studies depict a less enthusiastic review. As time moves forward objectives and investments seem not to match their results.

What does 'outstanding quality and great service at a not so competitive cost' mean for Sainsbury's business? The answer can be found in many of the graphs circulating on the internet. Sainsbury has fallen behind compared to Tesco and Asda. Despite their tremendous effort and will to do things differently they are not the customer's first choice when it comes to shopping. They are in third place, not moving much as 2003 and 2004 numbers tell us. More dramatically, public investors seem to have less faith in this company. The share price performances 1995 through 2004 show a steady but declining trend, performing just under the 85%. In comparison to Tesco, they are doing a very bad job. Tesco shows an aggressive growth line perform up to 385% throughout the same period.

"Retail is a simple business. We've made it much too complicated" Justin King, chief executive Sainsbury.
We therefore recommend to get back to basics, and focus on what customers want: availability, in-store convenience (like shorter queues) and competitive prices.

2 THE SITUATION

From the 1990's business at Sainsbury's didn't go as smooth as the years before. Management had become too comfortable and Sainsbury had lost its cutting edge. The grocery industry was dominated by the "big three" retailers: TESCO, ASDA and Sainsbury's. TESCO had gained market share and had become market leader by shifting focus to quality and offering increased value for the customers with their "top notch" supply chain system. ASDA moved forward in gaining market share with a very aggressive low pricing strategy. On top of the low pricing they had an advanced supply chain IT system to show the flow of goods, reducing shelf space and stocks. Sainsbury's on the contrary had an old infrastructure and outdated Warehouse Management Systems. Huge pressure was there to improve productivity and efficiency in the supply chain. So in 2001 Sainsbury started with the implementation of a newly designed and developed Supply Chain.

Sainsbury's objective in 2000 with the implementation of the modification of their Supply Chain: "Reduce overall cost base by $700 million in three years (7-in-3) with profit margins of 5,5% by overhaul of the firm's physical infrastructure, systems, processes and skill sets."

Sainsbury had four key principles embedded in their strategy:

- Replace current depots with automated fulfilment factories and PCC's.
- Integrated managed transportation.
- Replace old and inflexible core supply chain systems.
- Measuring and monitoring systems.

The above mentioned principles and their physical implementations are clearly described in both Sainsbury's business cases, (A) and (B). We will elaborate on them later on in this report.

3 SAINSBURY'S AMBITIONS

Sainsbury's wants its name to be seen as a brand representing quality and value for money, as well as high standards of customer service. They do so by giving display space to popular, high margin brands. At the other hand the producers of these brands want to be associated with Sainsbury's and will compete with each other for the 'best' space within stores.

3.1 Competitive priorities

Their competitive priorities are focused on quality and time. Deliver the best quality, which in their case has everything to do with the logistical speed and the diversity, quality and freshness of the product. One key factor is their relation with their suppliers. Sainsbury's is aiming for a smooth and secure logistical system. This is a must do given their status then. They were dealing with an outdated supply chain infrastructure that was no match for a system that had to efficiently handle more than 2,000 suppliers, 35,000 product SKUs, and 800 million cases of product each year. Before the change, warehouse pick lists were circulated on paper. Inventory visibility was foggy not only in the warehouses but also in the stores, making basic replenishment an inaccurate process. Management had little real-time data with which to make sound decisions. In the light of the competition, this situation was unacceptable.

3.2 BPM and technology

To do things faster, simpler and together, they need to rely on a firm supply and logistical system. A set of processes defined to reach quality and speed. Support should come from specialists in the field and an integrated supply management system at the end. They found the right partner with Accenture's managing consultants. The system came from Sun and their allied partner Manhattan's Associates. They have an integrated and top ranking warehouse management system (WMS). In its latest project Sainsbury's is rolling out an RFID system, which started with one of their delivery depots during 2000, and is planned to be implemented company-wide over the next few years.

3.3 The expected results

By 2004 they aimed to achieve a spectacular £700 million cost savings and targeted 5.5% margin. All that extra cash is needed as the company focuses on continuous growth "Sainsbury plc's present focus is to improve the performance of the core UK supermarket chain. Whilst doing so we will continue to explore and develop growth opportunities in other markets. Through implementing 'Managing For Value' we will stretch our ambitions and challenge the conventional wisdom within the Company, thereby unlocking our potential and delivering value." Source*:* Sainsbury Web site

Strategic alliances are an important ingredient in this battle for the customer's favor. Sainsbury's wants to form partnerships with other non-competing well known brands. They introduced Boots health and beauty and pharmacy shops in a number of out-of-town stores in 2002. The 'Nectar' loyalty card links the Sainsbury brand with that of Debenhams, BP and Barclaycard. Hence, Sainsbury's name has been used in developing the company's own-brand products. Although Sainsbury's is best known as a supermarket retailer, it has a series of other activities; Sainsbury's Supermarkets, Shaw's Supermarkets Inc, Sainsbury's Bank, J Sainsbury Developments Ltd (JSD) and Sainsbury's Property Company.

4 THE EFFORTS

Compared to its competitors (Tesco and ASDA), Sainsbury's appeared to be minor in efficiency of the supply chain. A benchmarking study in 2000 revealed a significant age difference in systems and warehousing infrastructure, as well as a supply chain cost gap of 60 million pound. The Sainsbury management decided to introduce a supply chain management program, to enhance major changes and improvements in infrastructure, processes, systems and skill sets.

The supply chain infrastructure was too out-dated to handle more than 2,000 suppliers, 35,000 product SKUs, and 800 million cases of product each year. The customers demanded a greater diversity of products, higher quality, more freshness, wider availability, better service, however no higher prices. Suppliers wanted more predictable order flows. Many problems existed: stock shortages were common, and the IT infrastructure was that antiquated that, on occasions, depot systems crashed.

4.1 "7-in-3"

All these factors make a thorough change mandatory, preferably on a short term. Because of this, they decided to have it completed in 3 instead of 7 years.

The four key principles of this so-called "7-in-3" Supply Chain Strategy were these:

1. To replace the current depots with automated fulfilment factories and Primary Consolidated Centres.
2. To create an integral transport management system integrated inside Sainsbury's Supply Chain IT System
    - Factory gate pricing was introduced to ensure that competitive costs were achieved, margins improved and by that, costs would reduce.
    - By introducing the elaborate in-cab technology, Sainsbury's would be enabled to manage its fleet more effectively: drivers could be in-formed of traffic delays, stores could be notified about the arrival of the vehicle, and fuel efficiency could be optimized by this Isotrak system.
3. To replace all old and inflexible core supply chain systems to one new up-to-date IT system
4. To implement a new measure performance management system for the supply chain structure and processes.

4.2 Sainsbury's Supply Chain Strategy

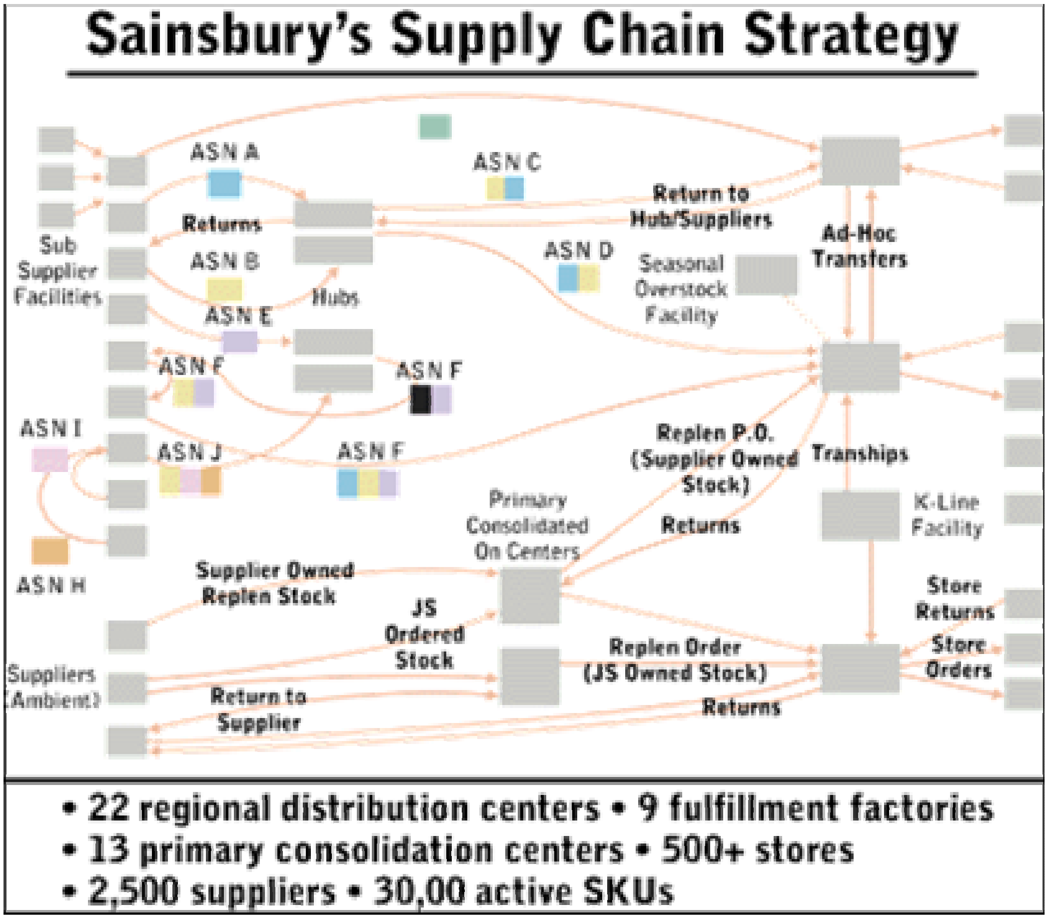
Replacement of the current depots with fulfilment factories and Primary Consolidated Centres (PCC).

In the old situation, the network consisted of 25 regional distribution centres. They were planned to be replaced by 9 distribution facilities ("fulfilment factories"), strategically located throughout the U.K. Six of them are fully automated, while the other three are still manually operated. Each factory could serve up to 150 local stores (meaning that with the 648 existing stores, the number of 9 fulfilment factories should be sufficient). Besides, there would be two depots for slow-moving goods, and two frozen food centres.

13 Primary Consolidated Centres were created to optimize the perishable products going through the network. Their products remained the supplier's property until the goods were received at one of the fulfilment factories. From there, they would be moved to the stores.

The PCC's would be located within 30 miles of a supplier's production facility.

The current situation of Sainsbury's supply chain is as follows.



Source: http://www.manufacturing.net/scm/article/CA416300.html

The scheme above shows that there still exists a complex situation: while the 9 fulfilment factories and the 13 primary consolidation centres have been built, most of the regional distribution centres are still in operation.

Products are sometimes returned to suppliers or PCC's instead of being transported to the stores. This means inefficient and double transportation and because of that, extra costs are involved.

4.3 Integral Sainsbury's Information Direct (SID) System

The current situation is that all Sainsbury's Supply Chain IT Systems are integrated and up-dated with new state-of-the-art hardware and software. The central core of the IT system is called Sainsbury's Information Direct (SID).

SID is the result of integrating three of the four principles into an easy accessible Web based portal for electronic Business to Business relationships between Sainsbury's and its business partners.

At first, SID is meant to contain services to support the Supply Chain. In the meantime however, other tools have been introduced to facilitate other business processes. More additions are being developed to make the best use of all the benefits of e-Business.

Current applications on SID are for instance PDS, Primary and Emptorius.

4.3.1 PDS (Performance Data Site)

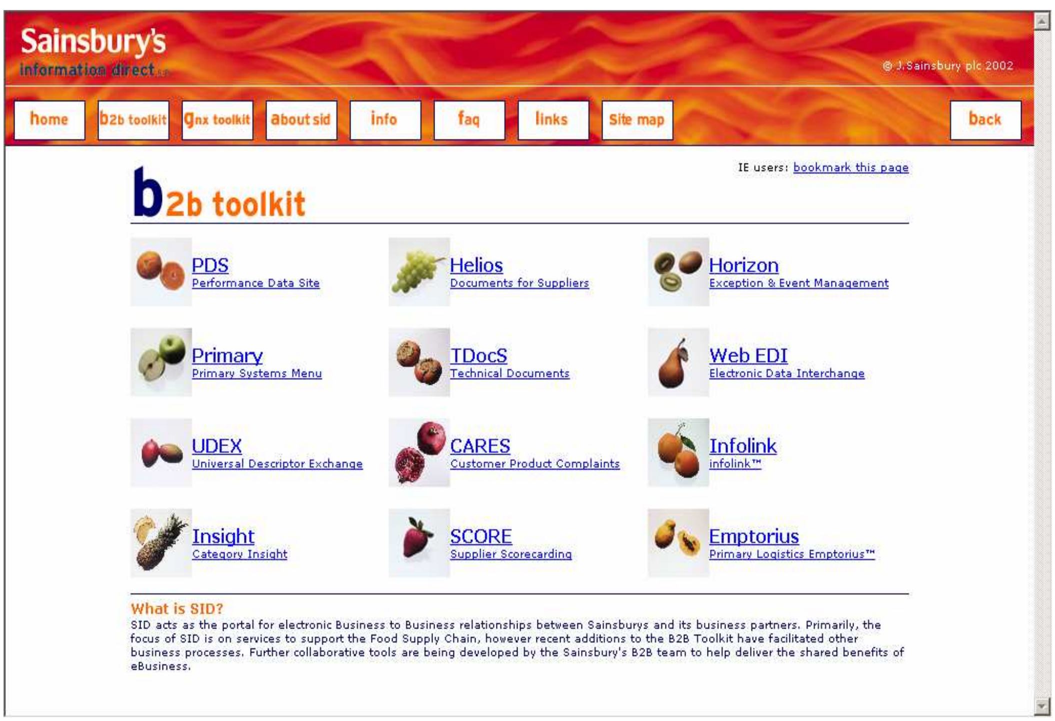
This item gives suppliers relevant information about for instance sales, customer availability, depot stock, supplier service, depot issues, range and forecasts. Since downloading data is an additional feature they can incorporate this information into their own processes.

4.3.2 Primary Systems Menu

The Primary menu offers applications in support of the development of the Primary Distribution operation. PCC Order Tracking (POrT) and PCC Stock Tracking (PST) provide information about the movement of stock through and beyond each Primary Consolidation Centre.

4.3.3 Emptorius

This software application Emptorius™ is an Internet based system that utilises password controls to ensure that suppliers and haulers only have access to their own data. It will record all information about transportation, ware-housing rate agreements between SSL and primary suppliers and SSL and primary haulers. The system will calculate all charges to suppliers and the amounts to be paid to haulers.



SID Web Portal

Source: http://www.sainsburys.co.uk/sid/

5 THE RESULTS

5.1 Their Supply Chain Strategy

Sainsbury's WMS system resulted in a €4.5 billion project, being one of the biggest and most ambitious of its kind. A re-evaluation of their current processes combined with support from the latest technology provided them with a clear head start in the logistic playground of today. It integrated their suppliers directly into their processes. Later on they move on integrating their customers into this process through a pioneer project with RFID. A complicated network streamed goods, money and above all information in and out of their systems and into the shopping bags. By December 2002 Sainsbury was able to carry almost 13.000 product lines into their stores. They were all ranging from bakery, canned and dry food, frozen food and domestics. In comparison, their biggest rival Tesco was carrying at least a thousand less. Sainsbury's next in line competitors, Asda and Safeway, were carrying five thousand products less that same period.

5.2 Customer's perception

"Our mission is to be the consumer's first choice for food, delivering products of outstanding quality and great service at a competitive cost through working 'faster, simpler and together."

How are they managing their competitive priorities? Their own study shows that only M&S and Waitrose are exceeding Sainsbury's customer preference for variety, innovation and quality. So they are meeting their mission in delivering outstanding quality and great service. But at what price? The same study shows Sainsbury's being the expensive alternative. Except for M&S and Waitrose, they were clearly topping the list. An independent consumer magazine, The Grocer, published some revealing numbers. A 'shopping basket' survey conducted in June 2002 through March 2003 showed Sainsbury being a few percentages more costly then its main rivals Tesco and Asda. Being more then 4% more expensive than the latter.

5.3 Their position

What does 'outstanding quality and great service at a not so competitive cost' means for Sainsbury's business? The answer can be found in many of the graphs circulating the internet. Sainsbury has fallen behind compared to Tesco and Asda. Despite their tremendous effort and will to do thing different they are not the customer's first choice when it comes to shopping. The are in third place, not moving much as 2003 and 2004 number tells us. More dramatically, public investors seem to have less trust in this company. The share price performances 1995 through 2004 show a steady but declining, performing just under the 85%. In comparison to Tesco, they are doing a very bad job. Tesco shows an aggressive growth line perform up to 385% throughout the same period.

6 Causes negative results

6.1 Too complicated supply chain for retail business

What Sainsbury's has in place is probably the most sophisticated supply chain in the industry. Much time and money has been spent to implement a highly automated system. The problem with this system is that it is totally dependent on technology and proper forecasting, and therefore it doesn't allow for the variations inherent in for example food retailing. How can you forecast the weather and thus what people are going to eat in one or two weeks? The system can't handle these fluctuations.

6.2 Implementation not in line with the chain's capacity to absorb changes

Sainsbury's '7 in 3' program has put a lot of pressure on its own organisation, but also on its partners who had to comply with new standards and processes. Moreover, Sainsbury's planned to implement the systems in a 'big bang'. It is an industry given that getting technology to work from day one is impossible when replenishment systems, warehouse systems, transport and supplier purchasing have to synchronise around products that have a short lifespan.

6.3 Not enough focus on the customer

It seems that Sainsbury was very committed to their supply chain project, but forgot about the customer. Customers are interested mainly in 3 issues: availability, short queues and competitive prices. Sainsbury's has worked on availability without a doubt, but doing that they've forgotten to work on in store convenience, and their price level is above that of the direct competition (see slide 7 and 8 of presentation on client perception and price level).

6.4 Downturn economy and price war

There is not much Sainsbury's can do about the slow down of the global economy, but we can assume that it has influenced Sainsbury's performance in recent years. Also in recent years the UK retail market has suffered under a price war, like we are having right now in The Netherlands. This can also have prevented Sainsbury's from meeting its objectives and ambitions.

7 THE EFFECTS

7.1 Inflexibility supply chain due to lock in

Due to Sainsbury's dependency on too complicated technology the company is sort of locked in with its processes and its suppliers. There is no contingency system to handle the fluctuations in the retail process or for example inaccurate forecasting. Where competitors have kept to traditional methodologies with the possibility to use hand carts and pick manually, Sainsbury has to set the full system in motion to deliver the right products to the supermarket.

Sainsbury's has put in place a system of technology and processes and demanded its suppliers to comply with this. This has led to a situation where Sainsbury can only purchase its products with suppliers who are part of the system. We assume that their dependency on these systems and these suppliers has had a negative effect on Sainsbury's negotiating power. This may be a cause of the higher prices compared to Sainsbury's direct competitors (see again slide 8 of presentation).

7.2 Not the desired financial result

When Sainsbury started this operation it had two financial objectives: Cost saving of £ 700 million in 2004 and a profit margin of 5,5%. For the first time in its 139 year history in 2004 Sainsbury had to announce a loss of £ 39 million. Despite spending £ 3 billion on a sophisticated supply chain Sainsbury's has not met its financial objectives.

7.3 Not customer's first choice

More importantly, Sainsbury's hasn't met its objective to be the number one in the market. Remember Sainsbury's mission: to be customer's first choice. Market share is lacking behind that of the competition, they are the number 3 in the market as we speak. Customers perceive Sainsbury's as a retailer who offers high quality food, but they're just too expensive.

8 Recommendations

8.1 Back to basics

Our first recommendation is as simple as that. Sainsbury's may be suffering from the 'head office' trauma. Sainsbury's managers may have forgotten why they were doing this: to better serve the customer. They became removed from the customer. Therefore it was a wise decision of the new CEO Justin King to sack 750 staff at Sainsbury's head office. The managers have to focus on what customers value: enough products on the shelves, short queues at the check out and competitive prices.

This may lead to the situation where some of the sophisticated systems have become obsolete, because they are just too complicated for the retail industry.

8.2 Make sure contingency plan is in place; not all eggs in one basket.

Sainsbury's, like the competition, should put a system in place as a back up when the sophisticated fails. Put the hand cart back in the warehouses, and deliver products also when asked to do so by a supermarket manager who discovers that a certain product is out of stock. He shouldn't have to wait until this information has passed through the pipeline and the product has been delivered to the store. This may take days.

8.3 Work on trust basis in organisation

From the case it appears that especially Sainsbury's buyers do not trust the supply chain. This may be a result of the little time spent to implement it, but also of the fact that the appraisal system doesn't support a shared purpose. See the case, where it says that part of the problem stems from an inherent difference in incentives between buyers and supply chain staff. Also, they have different priorities. Supply chain staff are mainly concerned by availability, buyers with the gross margin on a particular product. The supply chain can only become a competitive advantage if every person involved supports the supply chain.

8.4 Boost your sales

In order to meet the objectives Sainsbury's has to increase it's sales. In that respect we also recommend to focus more on marketing the products. Sainsbury's could decide to add bio products or fair trade products to it's product lines in order to become the customer's first choice.

8.5 'Show me the ROI'

And next time it may be wise to set financial boundaries for the project and calculate NPV and ROI in advance…

9 EXHIBIT 1

The information about the company's history, its objectives, its mission and its core values can be found on the Sainsbury websites. We used the following sites to provide a clear picture:

Corporate: http://www.j-sainsbury.co.uk/index.asp?pageid=247

Business (SID): http://www.sainsburys.co.uk/sid/

Consumer: http://www.sainsburys.co.uk/

We also used the following websites:

www.supplymanagement.com

www.bbcnews.co.uk

and also many other sites provided information to support our analysis of the case.

9.1 Company overview:

J. Sainsbury plc is a leading UK food retailer with interests in financial services. It comprises Sainsbury's Supermarkets,Sainsbury's Bank, Bells Stores, Jackson's Stores (acquired August 2004) and JB Beaumont and employs 150,000 people.

Our objective is to meet our customers' needs effectively and thereby provide shareholders with good, sustainable financial returns. We aim to ensure all colleagues have opportunities to develop their abilities and are well rewarded for their contribution to the success of the business. Our policy is to work with all of our suppliers fairly, recognising the mutual benefit of satisfying customers' needs. We also aim to fulfil our responsibilities to the communities and environments in which we operate.

9.2 Our goal:

At Sainsbury's we will deliver an ever improving quality shopping experience for our customers with great product at fair prices. We aim to exceed customer expectations for healthy, safe, fresh and tasty food making their lives easier everyday.

9.3 Our strategy:

We are focused on our UK business. We must build on the recent investments made to reclaim the market position that belongs to Sainsbury's; great quality food at good value prices is where the company started. It is at the heart of what Sainsbury's stands for and is what our customers still want us to provide.

9.4 Our business priorities:

In order to deliver our mission and restore profitable growth we are focusing on three core, interrelated areas:

9.4.1 Outstanding quality and choice

We are committed to providing our customers with quality and choice in both food and non-food areas. We are constantly looking at ways to innovate and improve own brand products so that we can provide our customers with food, beauty products, homewares, general merchandise, banking and customer services. All of which make the weekly shop more convenient.

9.4.2 Delivering great service

Our number one job is to serve our customers well. This means we must look to provide a consistent level of good customer service across all our activities whether this is customer contact, product availability, food quality or banking services.

9.4.3 Competitive costs

We have recently completed our modernisation programme and are working to ensure we get maximum benefit from these investments.

We aim to ensure all colleagues have opportunities to develop and that they are rewarded for their contribution to the success of the business. Our policy is to work with our suppliers fairly and to fulfil our responsibilities to the communities and environments in which we operate.