CPFR & its applicability to industry

G. B. R. Krishna Prasad □

This articles explains the origins of collaborative planning, forecasting and replenishment in consumer products industry and explains the basic steps in this business process model. It goes on to explain the benefits to suppliers and buyers and where this model is applicable. Lastly it highlights the benefits to be achieved by applying these principles in B2B commerce.

The consumer products industry, in US, is in the midst of fundamental shift in attitudes concerning traditional business practices among its participants, particularly those practices relating to trade promotion and replenishment of products across the supply chain. This has resulted in a response known as efficient consumer response movement in 1992. The committee formed for this purpose estimated that the industry could save $30 billion annually and reduce system-wide inventories by more than 40% if more rational practices could be brought to four issues- (1)

- trade promotion
- replenishment
- product assortment
- new product introductions.

Amongst the four above, actions related to replenishment alone accounts for 40% of total benefits projected for ECR. However the benefits projected have not been realized due to various reasons and principal reason being not able to share openly information between retailers and suppliers at the desired rate. Even-though trading partners have established continuous replenishment programmes, the benefits have not been realized due to lack of visibility into the future requirements. It is at this stage Collaborative Planning, Forecasting and Replenishment (CPFR) plays a crucial role in terms of paradigm breaking business model that takes a holistic approach to supply chain management among a network of trading partners. CPFR evolved from an initial pilot programme between Warner Lambert and Walmart. Now it has become a movement with various member companies forming a strategic initiative namely by forming Voluntary Inter-industry commerce organization. The committee has formed the guiding principles and encourages to adopt this business model across different industries.

CPFR is a business process model for value chain partners to coordinate plans in order to reduce variance between supply and demand. It is a nine-step process that helps companies realize higher service levels, higher in-stock performance and lower inventories. The nine steps are (2) :—

1) Step 1 — Front end agreement — Participating companies identify sponsors, agree to confidentiality and dispute resolution processes m, develop a scorecard to track key supply chain metrics relative to success criteria and establish any financial incentives or penalties.

2) Step 2 — join business plan- The project teams develop plans for promotions, inventory policy changes ,store openings /closings and product changes for each product categories.

3)Step 3-5 — Sales forecast collaboration —Trading partners share consumer demand forecasts, and identify exceptions that occur when partners plans do not match, or change dramatically. They resolve exceptions by determining causal factors, adjusting plans where necessary .

4) Steps 6-8 — Order forecast collaboration — Trading partners share replenishment plans, identi-fying and resolving exceptions.

5) Step 9 — Order generation/ delivery execution—Results data-(POS, orders, shipments, onhand inventory) is shared and forecast accuracy problems overstock/ understock conditions and execution issues are identified and resolved.

How Suppliers benefit using CPFR model

Suppliers benefit by way of increased sales, decrease in inven-tories

□ Associate professor in Padmashri Dr. B. V. Raju institute of technology, Hyderabad.

and reduction of cycle times using this model. This happens because supplier gains a commitment from the customer resulting in a more stable demand pattern. Stable demand patterns ensures that the supplier has better control over production and inventory. This results in cost savings which can be shared with customers.

How Buyers benefit using CPFR model

Buyers benefit by way of reduced prices and synchronized operations. Buyers who enter into collaborative relationships get better service levels and long-term price reductions as collaboration involved hooking up two businesses to jointly share in the risks and the rewards of the transaction.

Applicability of CPFR model

This model works best in consumer goods industry(3). However other industries are also adopting this model considering its promise. Hightech (www.rosettanet.org), retail (www.uccnet.org), automotive (www.aiag.org) have adopted this model to varying degrees. Another area which holds great promise is in maintenance, repair and operations space .CPFR model is not applicable to for procurement of commodities, where price is the primary driver. This is so because CPFR model ensures pricing is a give and take process that evenly shares the rewards and risks of the transaction. Since commodity markets work exactly opposite to this logic, CPFR is not applicable to this segment.

CPFR & B2B exchanges

One important development for CPFR process is its adoption by various B2B exchanges. WWRE, GlobalnetXChange, Transora, Rosettanet, UCCnet, aiag have committed to offer CPFR. The benefits of adopting in an exchange environment can be broadly categorised as follows:

Efficiency

– Reduced cost of building functionality once for many companies based on exchange standards
– Ease of attracting new trading partners, since the business and technical costs may be lower
– A common catalog basis for collaboration that eliminates inconsistencies in trading partner and product identifiers
– Reduced time to scale, since CPFR will be offered as a standard service in most retai1/CPG marketplaces (including GNX, WWRE, and Transora)
– Potential to allow trading partners to forgo the need for in-house software deployments.

Effectiveness

– Visibility to all of a company's trading partners who are exchange members from one point of access.
– Greater potential for operational excellence by exchanges, which focus exclusively on B2B commerce.
– Exchange standards for calendars, product/location/partner identifiers, workflow and data formats that make collaboration more effective.
– Better synchronization and consistency of data collected from multiple trading partners.
– Tight integration with other B2B exchange hosted applications. For example,
– Capability to collaborate quickly on new products through integration with the common exchange product catalog
– Links to online procurement processes including purchase order generation and purchase order aggregation.
– Ease of access to a large community of partners enabling collaborative relationships with a broader group than would be feasible otherwise.

While CPFR with its origins in US is a great concept and is revolutionising the business practices across different industries, companies in India can reap great benefits by adopting it early on with the kind of boom expected in consumer product industry and gain a significant competitive advantage for their firms.

References

1. Collaborative Planning, Forecasting, & Replenishment-2001— a white paper by Syncra.com submitted for ISIT.com
2. Introduction to Collaborative Planning, Forecasting and Replenishment - 2001— by Syncra Systems Inc
3. Digiconomy- The Digital Economy by Andrew White of Logility Inc - 2000 ☐