Breaking Down the Silos:

• How Communication Increases Efficiencies and Profitability

Presented by:

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GJM Associates, Inc. is a consulting firm that focuses on all aspects of merchandising operations for direct marketing companies. Our primary focus is supply-side processes, that start with merchandise analysis and planning, includes inventory management strategies and the critical coordination of merchandising, marketing, finance, creative and operations through all elements of the business to the ultimate and profitable fulfillment to a customer.

- 10 years Consultant
- 10+ years Catalog (J. Crew, Disney Direct, Genesis Direct, Lillian Vernon)
- 3 years Wholesale (importer/distributor)
- 10 years Retail (Sak’s Fifth Ave, Kids R Us)
- 2002-2007 Served as Chair of the DMA’s Catalog & Multichannel Marketing Council
- Speak at conferences (User Groups, NCOF, ACCM, Retail Marketing Conference, ECMOD-European Catalog Mail Order Days)
- Contribute articles for trade publications
Agenda

Definitions

Actual Case Study

Communication Process

Specific Information Flow
• A silo system cannot easily integrate with any other system. This means we have multiple versions of the same data, violating the idea of a single version of the truth.

• The silo effect is a phrase that is currently popular in the business and organizational communities to describe a lack of communication and common goals between departments in an organization. It is the opposite of systems thinking in an organization.
COMMUNICATION

• the activity of communicating or conveying information between people or groups;
• a connection allowing access between persons or places
• the process of exchanging information and ideas
Actual Case Study:
“Turn Around” Situation
Actual Scenario

Disney Catalog (1994-1995)

• Operating at a loss
• Minimal top line growth
• Several operating offices (locations)
• No strategic goals
• Corporate threat to close
Actual Scenario (Actions)

- Stringent budget developed (included growth)
- Offices/DC’s combined
- Motivational programs developed
- Challenge: question EVERY method, procedure, process, cost, etc. by each individual
- Education: Explain WHY things were done – not “Because ........ (I said so).”
Actual Scenario (Actions)

Created Incentive Programs:

• Not necessarily $$$ based
• Created an atmosphere where “we have always done it this way” was challenged
• Alternative more efficient suggestions emerged
  • DIRTFT
    • “Do It Right The First Time”
    • e.g. everyone entering DC required to pledge and sign DIRTFT
Actual Scenario (Results)

Top line almost doubles (including a spin-off collectibles book)

Earnings: $2 mil loss to $6 mil EBITDA; Cash positive

Cash borrowings paid back to Corporate

All results within 14 months
Overview

- Willingness to share information
- Building Interdepartmental Partnerships
- Results Depend on Organization’s Politics
- Processes rather than “silver bullets”
- Accomplished with little or NO Cost
Questions to Ask Yourself

Does your organization encourage information exchange between/among departments?

Do many of your departments have shared common goals? (e.g. mdse/inv, mktg/ops, etc.)

Is everyone in the organization focused on the same goals?
COMMUNICATION PROCESS

General Suggestions:
How it was Accomplished
Establish a Pre-Season “Kick-Off” meeting

- Representatives from all departments

Each Department should Discuss:

- Review of post season results
- “What worked, what didn’t”
- “Direction for new season”
- Potential “issues” that might arise

Question / Gain consensus – realistic goals
Management

- Success / Failures
- Major New Initiatives (Changes)
- Corporate Goals
Kick-Off Meeting Sample Agenda

Finance

• High Level Season/Horizon Results
• Variance to Plan
• Cash/Payment Issues (past season and projected)
• Financial Targets / Goals
Marketing

- Review top and bottom lists (response rates, AOV, $ per book, etc.)
- Variance to plans
- Targets (catalog, internet, email & what percent is truly incremental)
- Any change or new lists
- Season Schedules (e.g. promo plans, ads)
- Goals
Merchandising

- Review top and bottom items
- Particular category trends
- Price Point trends (APO vs. APS)
- New or Dropped categories/items
- New Product development considerations
- High Return rate issues
- General trends
- Goals (e.g. increase margin, sales, both, etc.)
Inventory Management

- Backorder/Cancel Rates
- Forecasting Accuracy (compared to marketing variance)
- Problem Items/suppliers
- Delivery Issues
- Overstock
- Goals (Turns, Fill Rates, Ovstk targets, etc.)
Kick-Off Meeting Sample Agenda

Creative

- Process Issues (e.g. turnover, photo samples, supporting docs for copy, corrections, changes, etc.)
- Changes/Frequency of Web changes, issues, special requirements, etc.
- Information Flow (key items, forecasts, space allocations, etc.)
- Future Process Changes
- Goals
Kick-Off Meeting Sample Agenda

Operations (DC)

- Success / Failures
- Receiving / QC Issues
- Space Limitations
- Information Flow (POs, BOs, QA, etc.)
- Special product handling issues/costs (e.g. standard box sizing, initial “prep”, etc.)
Operations (Call Center)

- Key Issues
- Customer Complaint Issues
- Information Accuracy and/or Needs (system or manual) re: backorder status, item descriptions, projected receipt dates, etc.
Now What?

Day to Day Communications
Check & Balance to each other

- Response rate/AO plan vs. history
- Inv can reinforce (or contradict) marketing forecasts
- Inv usually tracks by book (if coding available); marketing by source code which can overlap books (especially now with internet, email)
- Inv needs to advise shifts in APO (will impact AOV and potential response)
- Strong “partner” for forecasting (before book is “officially” called)
Communicate trends

- New or dropped merchandise categories
- New categories/products = new list possibilities?
- List results / new list possibilities
- In season – shifts in expected trends, backorder supply issues (esp. near peak w/ planned remails, email promos, etc.)
Merchandising ↔ Inventory

Checks and Balances

- Establish Same Goals (fill rate, overstock, etc.)
- Partners
- Supplier Perception as “One Voice”
Additional Expense Controls

- Inventory/Merchandising provide item space estimates
- Supply Sell Ratio (Ad to Sales) benchmarks/thresholds
- Provide allowable variance guidelines (space changes can impact demand, inventory fulfillment, etc.)
Silos in Today’s Multichannel Environments

Ensure ROI considered across online channels

• Report online channels in integrated dashboard
• Ability to see how one online channel impacts another (e.g. organic vs. paid search)

Understand true Incremental Demand

• Critical to recognize how print and email impacts online results and where to allocate spend
Specific Process Suggestions
Pre-drop catalog “walk-thru”

- Inventory, Merchandising, Creative, Marketing, (Finance & Operations, if possible)
- Review item & page/spread estimates (Aii)
- Potential Delivery Issues
- Potential Backorder/Fill Rate issues
- Raise “contingency plans” NOW -
Exception Reports/Monitoring

- Top 10 - 20 Backorders
- High Returns (Committee)
- Daily OPS statistics e.g. receipts, receipt backlog, QA, orders picked, ship backlog, etc.
- Communicate potential problem areas
- Mdsing/Inventory to supply SKU forecasts to DC (advance of horizon/season)
**Additional Suggestions**

If possible, arrange visit to DC/Call Center by Merchants/control buyers

- Assign a specific area to focus on (returns, QC, receiving, etc.)
- **Benefit:** Awareness of operational processes dramatically improves overall efficiency

Provide detailed spec sheets/product photos to receiving and call center (now online)

- **Benefits:**
  - Improve QA process
  - Improve receiving time; answers readily available; saves time & calls to merchants
  - Increase call center ability to answer customer questions on product
Communication with Suppliers

Understand supplier production cycle & process
  • Avoids unrealistic “demands”/expectations and delivery complaints

Partner with suppliers -- listen to their needs

“Godfather Rule”

Provide suppliers estimated SKU forecasts

Share catalog presentation (est. circ?) with suppliers
  • They may partially “back up” buys
Communication with Suppliers

Supplier Compliance Manual (what you expect of suppliers – “Be fair and not a sucker”)

Be reasonable and discuss supplier “issues”

- e.g. labeling issues, costs, delivery timeliness, if backorder chargebacks (explain overall costs), etc.

Don’t create a P&L line for supplier chargebacks – Build a Partnership
Six Tips for Culture/Team Building

Keep it Simple

• Everyone must feel comfortable with the culture. Leave room for individuality and personality.

Make it Global

• Everyone, including management, must buy in.

“Be Our Guest – Perfecting the art of Customer Service” by Disney Institute, 2001
Six Tips for Culture/Team Building

Make it Measurable

• Create specific guidelines and make them a part of the performance assessment process.

Provide training and coaching

• Incorporate the elements of the culture into employee training and ongoing performance coaching. Encourage peer-to-peer coaching.

“Be Our Guest – Perfecting the art of Customer Service” by Disney Institute, 2001
Six Tips for Culture/Team Building

Solicit feedback and ideas from the team

- Foster a sense of ownership and expand the pool of creative input by allowing employees to contribute to the project.

Recognize and reward performance

- Build employee motivation through formal and informal reward and recognition programs.

“Be Our Guest – Perfecting the art of Customer Service” by Disney Institute, 2001
Overview

Communication opens the doors at many levels

Fosters true “T E A M” effect

Take the DIRTFT challenge !!!
Addendum

This communication process has been followed by many companies and all have had improved bottom line results.

I used my personal Disney example to illustrate the power this process can have if fully embraced at all company levels.

At Disney it had the most dramatic improvement in the shortest period of time.
Almost Right Now is Better than Exactly Right later…..”

Do 1st things First, 2nd things NEVER!

A bad decision is better than no decision at all!

Always tell the bad news first - never last.
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