What Jessica Simpson Has to Teach Supply Chain Executives

"Is this chicken, what I have, or is this fish?
I know it's tuna, but it says 'Chicken by the Sea.'"

~ Jessica Simpson

IOEA

Keep it real.

Abstract:

Consumers are used to getting what they want. When something's "hot," they *really* want it. Companies have to find a way to prepare their supply chains to satisfy ever-more aggressive demand without breaking the bank or driving people to lose their minds. We know we must hold more inventory to protect sales, but at the same time we know we must hold less inventory to manage costs. Recent advancements in supply chain management that resolve this core conflict permanently seem to be inspired by, would you believe, the beautiful, stylish – and some would argue untalented – Jessica Simpson. She does have one talent that goes largely unrecognized, and that is she can make supply chain professionals dance every time she goes out in public.

You can't say Jessica Simpson is famous for her intellect, and clearly she does not understand food marketing, but she sure knows how to start a fashion trend. Leaf through the magazines in your grocery store check-out line to see what she's wearing, and then browse around your local mall. You'll find irrefutable evidence of what we call The Jessica Effect, a speed-to-shelf phenomenon that's turning global supply chains on their heads. It's been said, perhaps unfairly, that we supply chain professionals don't have the greatest sense of style, but you can thank the recent business strategy and information technology advancements we've made for the haste at which knockoffs appear in stores.

The youth culture's obsession with celebrity fashionistas is fueling a supply chain revolution. At the forefront are "fast-fashion" companies that are taking the latest rage from catwalk to checkout in a few short weeks. Here we'll reveal how you too can capitalize on The Jessica Effect by unleashing yourself from supply chain management practices that fail to connect supply with actual demand. You'll come away with an understanding of supply flows that dramatically increase sales while reducing inventory, typically by half. These new supply flows work beautifully – and they open up a world full of conspicuous profits, which are always in style.

Our problem

The typical attitude of today's consumer is, "I don't care HOW, I want it NOW!" Who can blame us? We're used to being coddled. Those of us in the supply chain responsible for availability would move heaven and earth to give consumers what they want when they want it. The problem we face is how to satisfy ever-more aggressive demand without breaking the bank or losing our minds. We know we must hold more inventory to protect sales, but at the same time we know we must hold less inventory to manage costs. It's a core conflict that's been driving us crazy and, in some cases, killing our company's sales and profit potential.

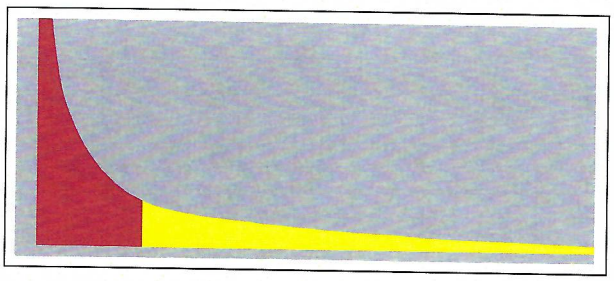
A recent Forbes.com logistics *article* reported that researchers have found consumer demand to be directly proportional to a product's life cycle. The shorter the life cycle, the greater is the demand. We go into a frenzy when something's been deemed "hot." Hollywood is sometimes part of the problem, which we'll get to, but it's also helping by giving us a good look in the mirror. Take for instance one of last season's episodes of Entourage, the HBO series about a young A-list movie star named Vincent Chase and his posse of childhood friends from Queens, New York, who are navigating the unfamiliar L.A. scene. One of the posse wants a pair of limited-edition sneakers that even Vince can't score. Virgins were willing to prostitute themselves for those shoes. Many of us laugh uncomfortably when we see things like this because to some degree we're the same way. Look at the clamoring going on already for the iPhone, Apple's new mobile phone, iPod and Internet communications device, that won't be out until this summer.

> "Beulah, peel me a grape."
>
> *~ from the 1933 film I'm No Angel*

Companies routinely and severely misjudge how demanding the consumer can be. The Forbes.com article just mentioned reported that for one consumer-electronics company it's not uncommon for sales forecasts to be off by 100 percent within the first 30 days. It seems the poster children for extreme consumer demand are fixated on the electronics industry. Just recently, rowdy crowds, stampedes, armed robberies and even senseless death marked the limited introduction of Sony's PlayStation3 video game system. In one report, police in North Carolina shot and killed a college

student accused of beating and robbing another student at gunpoint of his two new PS3s. The 18-year-old came to the door holding a PlayStation controller in his hand, and after police shot him they turned around and shot his dog too. The robbery victim had waited three days in line at Wal-Mart to buy the units, police said. It's crazy out there.

In Chris Anderson's widely-read book *The Long Tail: Why the Future of Business is Selling Less of More* (2006), he wrote, "We define our age by our celebrities and mass-market products – they are the connective tissue of our common experience. The star-making system that Hollywood began eight decades ago has now spun out into every corner of commerce, from shoes to chefs. Our media is obsessed with what's hot and what's not. Hits, in short, *rule*." He goes on to prove the hypothesis that although we still, and perhaps always will, obsess over hits, they're not the economic force they once were now that the market is splintering into millions of niches of every size. It's fast becoming a market of multitudes. Anderson observed that the new niche market is not replacing the traditional market of hits; it's just sharing the stage with it for the first time.



The Long Tail is the line at the bottom of the demand curve that infinitely stretches off to the right of the hits. Anderson believes this is the true shape of demand in our culture, showing that products in low demand or having low sales volume can collectively make up a market share that rivals or exceeds the relatively few current bestsellers. Often it's presented as a trend of interest primarily to mass-market retailers and Web-based businesses, but certainly it's of interest to any supply chain professional. Even if you're in the business of something like sponges rather than sneakers or game systems, you're going to have to find a way to deal with demand.

Anderson writes that every retailer has its own economic threshold, but they all cut off what they carry somewhere. He has observed that things that are likely to sell in the necessary numbers get carried, things that aren't, don't – therefore most

retailers cut off inventory pretty close to the Head. In our hit-driven culture, people get ahead by focusing obsessively on the left side of the curve and trying to guess what will make it there. Continuing to focus our supply chain improvement efforts on the lion's share of the market probably makes the most sense. What we learn by managing the current bestsellers puts us in good stead for when the market of multitudes hits us full in the face. For sure we've made continual advancements in business strategy and information technology, but the age-old problem caused by forecasted demand which creates two huge negative effects simultaneously – too much inventory and shortages – is not going to go away until we can connect supply with actual consumption. That is, until we can take the guesswork out of our profession. Quite literally, if you look at the PS3 calamity mentioned earlier, being able to do that would be a life saver.

To use a funny pop-culture reference to wrap up the problem we're facing, there's a SpongeBob episode where Mr. Krabs transforms the Krusty Krab restaurant into a hotel to earn more money. The plaque he puts up in the lobby reads, "We shall never deny a guest even the most ridiculous request." This didn't work out so well for Mr. Krabs, who is forced to do things like make a Krabby Patty with toenail clippings and nose hairs. It seems to be working out a lot better for us thanks to some recent advancements that seem to be inspired by, would you believe, the beautiful, stylish – and some would argue untalented – Jessica Simpson. She does have one talent that goes largely unrecognized, and that is she can make supply chain professionals dance every time she goes out in public.

> "Is this chicken, what I have, or is this fish? I know it's tuna, but it says 'Chicken by the Sea.'"
>
> *~ Jessica Simpson*

On the road to supply chain excellence

You can't say Jessica Simpson is famous for her intellect, and clearly she does not understand food marketing, but she sure knows how to start a fashion trend. Leaf through the magazines in your grocery store check-out line to see what she's wearing, and then browse around your local mall. You'll find irrefutable evidence

of what we call The Jessica Effect, a speed-to-shelf phenomenon that's turning global supply chains on their heads. It's been said, perhaps unfairly, that we supply chain professionals don't have the greatest sense of style, but you can at least thank us for the haste at which knockoffs of the latest rage appear in stores.

The same Forbes.com logistics article referenced earlier said unpreparedness for demand fueled by short product life cycles is just one of multiple elements conspiring to create time in the global supply chain queue. "Fast factories are necessary, but not sufficient, for overall supply chain speed....The latency in manufacturing supply chains is less and less about manufacturing, and more a function of inbound materials lead times and inbound and outbound freight." The article postulated that it's going to be the supply chains that go lean, postpone final assembly, manage supply risk, feed market insight into product design and development, and collaborate with trading partners that will flatten the round (i.e. slow) supply chain world.

> "If you can't get rid of the skeleton in your closet, you'd best teach it to dance."
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> *~ George Bernard Shaw (1856-1950)*

And indeed, these very types of supply chain advancements are helping "fast-fashion" companies take the latest rage from catwalk to checkout in a few short weeks. In *The Economist* magazine's logistics pull-out section in June of last year was a story about how three large and successful companies are using their supply chains to compete. It's no surprise that two of the three are Dell and Procter & Gamble – their responsiveness to consumer demand is legendary. The third is the fast-fashion company Zara in Spain, a relative unknown. Zara's supply chain, fueled by the youth culture's obsession with celebrity fashionistas like Jessica Simpson, is setting speed-to-shelf records that are the envy of us all.

Zara is mirroring an approach which moves a supply chain from "push" to "pull" – where the consumer pulls products through the delivery channel, rather than the "push" variety where the company pushes products at the consumer by promotion.

Zara's designers are known to track fashion trends as closely as the rest, but whereas a typical clothing company manufacturing in Asia uses a six- or nine-month forecast to get a hot, new design into the shops, reportedly Zara gets it there in around five weeks by using a much shorter term and therefore more accurate forecast. *The Economist* article details how Zara does it, and mostly that's by avoiding mass production. Zara replenishes some stock, but its clothing for both men and women is deliberately made in small batches – which also helps to create a scarcity value (i.e. better buy now in case it's gone tomorrow). Reportedly the number of items that end up on sale at Zara is about half the industry average.

Industry averages are what they are because of the inadequacies of the supply chain management solutions we all know and love to hate. We hate them for their serious limitations when it comes to being able to replenish based on actual consumer demand. Purchasing Magazine reported last year that about $3 billion was spent in 2005 on tools for supply management but that the ROI on those tools was break-even at best. We'll probably hear that spending went up in 2006. Most of these tools rely on some version of a forecast, and forecasts are rarely if ever accurate especially at the SKU level. Long-term demand forecasting – the process of predicting when and where a product will be needed and getting it there on time – is at the root cause of most logistics breakdowns.

> "It's only when you look at an ant through a magnifying glass on a sunny day that you realize how often they burst into flames."
>
> *~ Harry Hill*

Search the term "supply chain optimization" on Wikipedia, and you'll find an overview of the classic supply chain management approaches and current solutions. From the reading, you would think that consumers behave like robots driven by statistical models. It says the classic approach is to try to forecast future inventory demand as accurately as possible by applying statistical trending and "best-fit" techniques based on historic demand and predicted future events. This approach can be applied to data aggregated at a fairly high level (e.g. category of merchandise,

weekly, by group of customers), requiring modest database sizes and small amounts of manipulation. Unpredictability in demand is managed by setting safety-stock levels so that, for example, a distributor might hold six weeks of supply of an article with steady demand but twice that amount for an article where the demand is more erratic.

Then a supply-chain manufacturing and distribution plan is created to meet this forecasted demand at the lowest possible cost (or highest profitability). This plan typically addresses the following business concerns: How much of each product should be manufactured each month? How much of each product should be made at each manufacturing plant? Which manufacturing plants should re-stock which warehouses with which products? What transportation modes should be used for warehouse replenishment and customer deliveries?

It goes on to say that the technical ability to record and manipulate larger databases enabled a new breed of supply chain optimization solutions to emerge. These are capable of forecasting at a much more granular level, like per article per customer per day, as if we can predict what a consumer will do. Some solution providers are still applying "best-fit" techniques, to which safety stock rules are applied, while others have started to apply "stochastic" techniques that calculate the most desirable inventory level per article for each individual store, trading off cost of inventory against expectation of sale. The resulting optimized inventory level is known as a model stock, and optimization solutions are typically part of, or linked to, the company's replenishment systems so that orders can be automatically generated to maintain the model-stock profile.

The road to nowhere

Boston-based research and advisory firm AMR recently claimed, "Where supply chain excellence improves demand forecast, companies have a five-percent higher profit margin, 15-percent less inventory, up to 17-percent stronger 'perfect order' ratings and 35-percent shorter cash-to-cash cycle times than their peers." Sounds great, doesn't it? If only. First off, even if you're able to get closer to nailing your demand forecast, a guess is still a guess. You could use the analogy here of long-term *weather forcasting*. Statistically speaking, it doesn't rain or snow about seven out of every 10 days. If meteorologists always forecast no precipitation, they will be right 70 percent of the time. Meteorologists today have the benefit of some pretty sexy data gathering and interpretation technology and processes that you'd think would

eliminate the "spitting in the breeze" that characterizes your local extended weather forecast. Especially when it really matters to you (if, say, you're planning an outdoor wedding), do you count on the forecast? Or do you plan for contingencies?

So, secondly, because a guess is still a guess, you must plan for contingencies. Remember the electronics company that admitted sales forecasts are usually off by 100 percent within the first 30 days? Well, let's say you're in a much better way than that company. However, your availability is still questionable – it's based on a guess. We've talked here about how the shorter the life cycle, the greater is the demand. You can pretty much count on that. But we've left something out of the formula – and that is what happens when companies try to compensate for demand forecast inadequacies. Like with the weather, you've got to plan for contingencies.

The Forbes.com logistics article pointed out that stocking up on inventory creates its own set of problems. "Just as producing too little can cause stockouts, excessive pre-building of finished goods leaves a company with high carrying costs or the chance of inventory becoming obsolete." Observers say rapid new product introductions and a trend towards global manufacturing have resulted in significant excess inventories across industries, creating real problems. That's saying a lot, so let's break it down.

New product introductions always have caused some degree of obsolescence, of course. But what used to be obsolete in a year is now obsolete in a few weeks in some cases. What business is going to want the UltraSparc chips in their enterprise-class servers that came out a few months ago *(see Moore's Law)* now that Sun's come out with less expensive but more robust Dual Core technology? Jessica Simpson isn't wearing zippered Ugg boots anymore; she's started to wear the new lace-up Ugg bootie. What self-respecting trend watcher will wear the zippered boots?

Couple that with longer lead times caused by greater distances between manufacturing and consumption. To protect against shortages (you can't sell what you don't have), retailers are placing larger orders of these sooner-than-ever to be obsolete products. If demand changes before the next new thing comes along, and when it changes – and it will change to a greater or lesser degree as soon as a new product is introduced – you're looking at obsolescence of an uncomfortably large inventory of products. Right now companies accept the carrying and obsolescence

costs because the cost of manufactured goods coming from Asia and India, for example, are so cheap. But what will happen as China's currency value grows strongly against the U.S. and European currencies?

The biggest cost to importers, a cost that should be unacceptable, is in the form of scarce manufacturing capacity being used to produce months of supply of goods that consumers don't want instead of to produce more of the items that consumers do want. So while it's true that forecasting demand more accurately puts you on the road to supply chain excellence, you won't get there until you connect supply with actual consumption. That 15-percent less inventory could be more than 50 percent if somehow you're able to do this. Your 10 percent write-off of obsolescence costs could grow to 30 percent as currency values adjust.

There have been many famous and not so famous logistics breakdowns that have resulted in excess inventory and shortages. You might remember Cisco's write-down in 2001 because of $2.2 billion worth of excess inventory. Or Apple's iPod disaster, when the company couldn't get enough of them out one recent Christmas season. And this past Christmas season you might have read about the *"merchandise mishaps"* of mall-based chains Chico's, Ann Taylor and others. The moral of these stories is that, no matter how you slice it, forecasted demand creates two huge negative effects simultaneously – too much inventory and shortages. Because inventory is the only aspect of the business that is entirely controllable and has everything to do with the company's success, we've got to find a solution that's not just "better" or "good enough."

> "Problems worthy of attack prove their worth by fighting back."
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> *~ Paul Erdos (1913-1996)*

Back on track

Supply chain professionals have made some significant strides even since the model-stock profile days. Different lean techniques like "pull" inventory management systems, including *Kanban* used at Toyota, have improved availability and hence sales. Toyota only produces cars when they have been ordered, giving

it the flexibility to respond rapidly to changing demand among other advantages. This approach works best when the level of demand is relatively stable. Only when you're looking at dramatic fluctuations over a short time frame do the weaknesses of these systems become evident. They don't adjust buffer sizes automatically and dynamically, they don't guarantee proper inventory buffers, nor do they provide the right product mix. The big picture here is that lean techniques fix things, yes, but they don't fix the things that improve profitability. So this takes us further down the road, but we're still not there.

Nor can we get there through the most recent supply chain optimization solution documented on Wikipedia, and the one being touted in some circles as the latest and greatest, which is called *Flowcasting*. Flowcasting is an extension of the Distribution Resource Planning (DRP) process created and implemented by André Martin at Abbott Laboratories in the mid-1970s. Flowcasting is the operation of an optimized retail supply chain by using a single forecast conducted at the shelf level, eliminating forecasting at all other nodes. It's the latest incarnation of the demand- or consumer-driven replenishment (CDR) model towards which many leading consumer products manufacturers are moving. The recently published *Flowcasting the Retail Supply Chain* (2006) claims to solve the most vexing problem facing supply chain managers worldwide: persistent and pervasive out-of-stocks at the retail store shelf.

The logic behind Flowcasting is simple: Once stores have forecasted what they expect to sell, they can calculate what they'll need to bring in as a simulation based on their current on-hand balances and ordering rules. The fathers of the theory and authors of the book, Andre Martin, Jeff Harrop and Mike Doherty, say that the unprecedented improvements in responsiveness and control provided by Flowcasting mean that store-level customer fill rates of 98+ percent are achievable by simultaneously reducing total supply chain inventory by 30 percent or more. Therefore, they claim, the solution will be able to remove $600 billion (USD) worth of costs out of the $10.36 trillion Global Consumers Goods industry. According to co-author Andre Martin, the acknowledged 'father of DRP,' "None of the movements and technologies implemented in the past twenty years has focused on the core issue: one unique store-level sales forecast is all you need to drive a retail supply chain. The retail store is both the beginning and the end of any retail supply chain. It's the beginning of the information flow and the end of product delivery."

Martin and gang definitely have one thing right. The store is where it's at. It was the position of the now-defunct but once influential *ERI Journal* magazine aimed at the extended retail industry, an audience made up of manufacturers, suppliers, third-party logistics providers, sourcing providers, and many other partners, that the crucial point where the ERI and the customer intersect is the store. Editor Dan Berthiaume wrote in October 2006, "Despite the increasing popularity of online shopping and the continuing popularity of alternate outlets such as catalogs and wholesalers, the majority of retail transactions still take place in a physical store." The store is where all our great work culminates, or it's where we fall down very publicly.

While Flowcasting validates the importance of the store, having a forecast model at the store level is ridiculous. This is where a forecast is the least accurate. Can you imagine the devastation to a business if it tried to forecast the purchase of each SKU at a store level? Basic statistics show that forecasts are most accurate at a consolidated level, such as a country or distribution center, and even still cause inordinate levels of shortages and excess inventory. We just don't get how this plane will fly. But let's say it does. No matter how limited or improved, demand forecasting is not telling us exactly what to replenish based on actual consumer demand.

Going with the flow

Because none of the forecast-driven models is allowing us to reach the level of supply chain excellence that we can and should be reaching, we're seeing a shift towards what's being called supply flow management where short-term forecasts are used at a consolidated level and where actual consumption gets connected with supply. Supply flow management falls short of being able to beam goods around, but it represents the most significant advancement in supply chain optimization yet. Supply flow management differs from all other initiatives that have come before it, most notably because this type of solution uses short-term forecasts for known events and new products – until actual data is available. Actual consumption drives the majority of the replenishment activity across the supply chain. Protection against variation is consistent at all levels – buffers are dynamically adjusted according to trends, with minimal human intervention. Zara's early take on supply flow management is proof that there's something to this. Finally, we're getting somewhere.

> "The lesson: Don't predict; measure and respond."
>
> ~ *Chris Anderson's The Long Tail*

In Geoffrey Moore's famous book *Crossing the Chasm* (1991), he wrote, "Our emerging and evolving markets are demanding continual adaptation and renewal, not only in times of difficulty but on the heels of our greatest successes as well. Which of us would not prefer a little more time to savor that success, to reap a little longer what we cannot help but feel are our just rewards? It is only natural to cling to the past when the past represents so much of what we have strived to achieve." Addressing this compulsion, he believes, is the key to crossing the chasm. He defines the chasm as the gulf between two distinct marketplaces for "disruptive" products – the first, an early market dominated by early adopters and insiders who are quick to appreciate the nature and benefits of the new development, and the second, a mainstream market representing the rest of us – people who want the benefits yet don't want to experience all the gory details.

You might be inclined to rest and savor the approaches that improve upon, or like Flowcasting severely limit, demand forecasting. Resist the temptation. If you don't, it could be disastrous. You must take into account the coming shortages of worldwide manufacturing capacity due to emerging unprecedented consumer demand in China and India and other countries where labor wage rates are rising annually in double-digit rates (more than 40 percent in some cases). Reports vary on the exact number, but about a quarter of a billion people in China alone have moved from farms to cities to join the manufacturing workforce. This means that there's a new and growing middle-class consumer base. Many more people have much more disposable income and a lot more to buy. China already has run out of people to help feed the world's ravenous appetite for consumer goods. How do we expect to tame the beast?

Well, we believe supply flow management will have the beast purring before too long. The first supply flow management solution introduced by a U.S. logistics company in late 2004 hasn't crossed the chasm into the mainstream, but it does have its early adopters and insiders – and they have seen the solution help clients

smash the current industry goal of 36 days of on-hand inventory. This company has proven that clients can multiply their profits by a factor of 10, increase their availability to more than 98 percent and double sales from the same stores with the same number of people and cut inventory in half.

The company is not just offering supply flow management but the literal supply as well, which is an interesting twist called "retail supply flow" that it introduced in January 2007 when it began collaborating with manufacturers around the world. The company offers retailers select lines that are of equal or better quality and price than the ones they currently feature. By using supply flow management methodology to distribute these products, the company is allowing retailers to fulfill demand for products that consumers want to buy rather than everything available in their wide repertoire. Clients of these retail supply flows now have a mechanism in place that helps them better match consumer demand and supply for the first time, and the results are remarkable.

We'll get to those remarkable results, but first let's gain a more complete understanding of supply flow management. Supply flow management is the new category of solutions that are guided by the *Theory of Constraints*, or TOC. TOC capitalizes on the biggest leverage point in any system. It's used by companies worldwide and is described in dozens of books, videos and self-learning materials. When manufacturers and distributors apply TOC principles, they are able to identify and leverage any of the organization's choke points and weak links, termed "bottlenecks." The father of TOC, Eliyahu "Eli" Goldratt, is helping to guide the strategy and tactics of the company providing supply flow management and recently introduced retail supply flow.

You'll hear Goldratt repeat often what he wrote in his international bestseller *The Goal: A Process of Ongoing Improvement* more than 20 years ago, that common sense is not so common. TOC gets its renown because it challenged basic manufacturing assumptions, and in hindsight the breakthrough process of ongoing improvement is common sense. "Incidentally, common sense…is the highest praise we give to a chain of logical conclusions," he wrote. Creating supply flows by connecting supply with actual consumption seems like a common-sense thing to do, yet many supply chains continue to focus on sophisticated inventory optimization techniques.

Goldratt says that challenging basic assumptions is essential to breakthroughs. In *The Goal* he wrote, "What I have attempted to show with this book is that no exceptional brain power is needed to construct a new science or to expand on an existing one. What is needed is just the courage to face inconsistencies and to avoid running away from them just because 'that's the way it was always done.'" The process of creating and managing supply flows represents a radical departure from the classic supply chain management approach and even is a world apart from the more recent attempts at improving or limiting demand forecasting. It challenges the basic assumption that we must manage inventory at all levels to a forecast. And when you look at the breakthrough result in hindsight, it's common sense.

There are a large number and variety of companies that have not been able to resolve the core conflict between holding enough inventory to protect sales and at the same time reducing inventory to manage costs. The lead article in the aforementioned logistics pull-out section in The Economist said, "A number of alarm bells have started ringing. Most firms have been organizing their logistics to make themselves leaner. Many now carry little or no inventory to save money. Indeed, sometimes their entire inventory consists of what is moving from the factory directly to the consumer in the back of a truck or an aeroplane. If something goes wrong – and it often does – business will quickly grind to a halt." We predict the introduction of supply flow management will silence the alarms permanently. Purring beasts, silenced alarms – lots of good things will happen.

> "I am a Ford, not a Lincoln."
>
> *~ former president Gerald Ford*

We're there

Venture capitalist, marketing guru, author and speaker Guy Kawasaki posted a review of *The Long Tail* on his blog that gave several reasons why he highly recommends it, one of them being, "...it may even help you create new companies and businesses that change the world. It's one of those rare books like Geoffrey Moore's *Crossing the Chasm* where you think to yourself, 'This can help kick butt.'" Someone posted the comment, "I still think the Long Tail principles will work mainly in favor of digital media and content distribution...while the rest of companies out there could do themselves in trying to serve the long tail and keep

their inventory lean and distribution costs low at the same time. If it were that simple, everyone would be doing it, right?" It actually is that simple thanks to supply flow management. Not everyone is creating supply flows yet, but we predict they will be soon. Retailers that have embraced early supply flow management solutions are indeed kicking butt and changing the world, and they are the shining example for the rest of us to follow.

"The rest of us" besides early adopters and insiders – i.e. the mainstream market – require proof before we'll buy. Though it's still early, there is proof to be had that supply flow management works. Another celebrity fashionista besides Jessica Simpson who's been fueling the speed-to-shelf phenomenon is David Beckham, the English footballer (soccer player) who is considered a celebrity even outside of the football world – it helps that his wife is British singer Victoria "Posh" Adams (former member of the Spice Girls). On and off the field, the clothes that Beckham wears instantly are in high demand. Companies in the sports apparel industry, now an industry akin to fast-fashion, are using supply flows to successfully connect supply with intense consumer demand for the hottest gear.

Take the example of a household-name manufacturer that endorsed the major European football tournament in 2005. During the time the company was enjoying extraordinary publicity, several of its retail stores close to the action were conducting a supply flow management pilot. You would think it would be a risky time for a pilot, but the solution worked beautifully. In fact, it was credited for reducing stockouts to a mere fraction of previous levels and for more than quadrupling stock turns – meaning the company did an unbelievable amount of business with the same amount of inventory – at a very frenzied time.

Although it seems counter-intuitive, it's been proven that supply flow management solutions typically reduce inventories to half of their previous levels while dramatically increasing sales. This manufacturer has increased year-over-year sales 50 percent at the stores piloting the solution and with the same number of people, while sales for its other stores without a supply flow management solution in place have remained flat. In general, across all industries, a company's stock price or market value is expected to increase about two to four times over a three-year period after implementing a supply flow management solution. That's the beauty of The Jessica Effect – supply flows that dramatically increase sales while reducing inventory open up a world full of conspicuous profits, which are always in style.

High-level summary of the supply-flow management approach:

1. Determine current client performance levels and therefore the financial opportunity for the customer. Agree on contract performance parameters and target levels. Parameters are typically:
    a. Inventory turns
    b. Sales
    c. Shortages
    d. Gross profit per square foot / meter
2. Assess the current supply chain elements and current practices, policies, systems and behaviors, level of control/ownership of supply chain. This includes ordering, replenishment policies, desired service levels, how new products are added or discontinued, etc.
3. Obtain customer data (SKUs, current and historical) and interface to the supply-flow management system. Determine the ongoing data-interface requirements.
4. Determine data characteristics (seasonality, packaging, supplier policies, etc.) and how that will be handled under the supply-flow approach.
5. Identify metrics and policies that need to change and ensure that the metrics and policies will cover all customer conditions.
6. Gain understanding and buy-in across all levels and functions within the supply chain – executives, functional heads, management, supervisors and directly-impacted employees, such as procurement personnel, store managers, warehouse managers, traders, etc. – of the new philosophy, holistic approach, procedures and changes in policies and metrics.
7. Reinforce this understanding and buy-in through a combination of presentations, formal workshops, meetings, one-on-one discussions and e-mail.
8. Replace the min/max or current stocking procedures with a supply-flow management system. Note that this does not mean replacing a customer's ERP system. (It is a much simpler approach to setting inventory target levels and dynamically monitoring and adjusting targets according to real consumption and trends.)

9. Work on-site with managers and personnel in all areas of the supply flow to ensure the behavior changes take effect. Note that this is usually the most labor-intensive part of the entire effort.

10. Monitor the results and take corrective action where necessary, including with executives and managers, to translate the buy-in into tangible results. This includes providing regular progress reports to all those involved. This will continue until the target results are achieved (expect dramatic results quickly, like in two months).

Dr. Eliyahu "Eli" Goldratt's Theory of Constraints is based on the premise that a company's rate of revenue generation is limited by at least one constraining process, termed a bottleneck. Only by increasing throughput (production rate) at the bottleneck can the company increase throughput overall.

According to TOC, every organization must have at least one constraint preventing the system from achieving a higher performance relative to its goal. In order to improve the performance of the system, bottlenecks must be identified and leveraged.

"At age 20, I knew my goal: Teach the World to Think. I thought I had a snowflake's chance in hell to succeed. Like a tap dancer in a minefield. But I thought to myself, if I try, maybe I'll have a full life."

~ Eli Goldratt, father of TOC and author of The Goal, an international best-seller, along with other bestselling books, articles and self-learning materials