

DENVER'S SUPPLY CHAIN FORUM

Denver, Colorado. January 28-30

OPERATION STIMULUS 2010

Student Debate Case Study:

Gaea Products

Sitting down at the table your team prepares to listen to Rick Helms, supply chain manager at Gaea, explains the situation:

“As you all know, Gaea is a recent spin-off of Procter & Johnson. Our organic personal care products didn’t fit well with P&J’s brand image, so we’ve decided to form our own company. While we’re a growing business, P&J left us with limited information regarding our supply chain operations and it’s becoming increasingly clear that our supply chain costs are disproportionately high and not tailored to our business. While we need to get these costs under control to ensure long term profitability and growth, the most immediate reason to improve our strategy is that our largest client, Wal-Mart, has asked us to implement Collaborative Planning, Forecasting, and Replenishment (CPFR).”

Your team recalls that CPFR has proven to be advantageous to customers and suppliers by dramatically reducing inventory levels and stock outs and the key to successful CPFR is strong communication along the supply chain. This means a sharing of information between partners often including business plans, demand forecasts, promotional plans, point of sales data, and order data.

Rick continues, “Such a partnership would provide global growth opportunities. Wal-Mart’s international presence would require that we have strong communication along our supply chain in all areas of the world.”

Changing PowerPoint slides, Rick carries on, “We’d also like you to take a look at our transportation issues in South America. Currently we’re shipping via air from our manufacturing plant in Argentina to our distribution center in Chile. Economic instability in Argentina has made air freight less reliable and our rates are going up. In this region our supply chain costs are close to 30% of our cost of goods sold, much higher than our other regions. We’ll need you to look at how to reduce costs in this region while also meeting our customers’ demands.”

“We would like your team to first look at the issue in South America, present a solution, and then discuss how we can effectively implement a global CPFR strategy. We’ll need to understand the Strengths, Weaknesses, Opportunities, and Threats associated with your decisions. Remember to look at the internal issues as well as the external environment when evaluating the options.”

Gaea Today

Gaea Products is a recent spin-off of the corporate giant, Procter&Johnson (P&J). P&J was founded in 1922 as a manufacturer and distributor of generic consumer goods. Through acquisitions and the creation of new product lines, P&J quickly became a market leader with an international presence. Today, P&J products can be found in nearly every supermarket and department store.

In the 80’s, P&J saw an opportunity in the natural products market, acquired several natural personal care companies around the globe, and launched their Gaea personal care product line. This market saw substantial growth through the following decades, but because the Gaea brand was still largely associated with the company’s less glamorous P&J brand they were losing market share to competitors. P&J determined Gaea could perform better as a standalone company and in late 2008, P&J spun off its personal care line under the name Gaea Products.

Today Gaea is a \$5.5 billion company with over 15,000 employees around the globe. Gaea is a manufacturer and distributor of organic and natural shampoos and conditioners. Gaea’s products are carried in nearly every major region of the world.

Distribution

Gaea owns manufacturing plants in every region in which they operate. In general, Gaea sources materials from nearby locations, manufactures the product, and depending on the region uses the manufacturing plant as a distribution center or ships the product to a distribution center (DC) in proximity to the market. Bulk is broken into purchase orders in the distribution centers and customers then pick up the purchase orders from the appropriate manufacturing plant or distribution center. A map of the manufacturing plants, distribution centers, and transit of goods can be found in *Appendix 2*.

Channels

Gaea's products are carried in supermarket chains local to the region as well as Wal-Mart which has an international presence.

Customer Demand

Consumers' growing interest in buying organic has led to a number of new companies entering the market. Though Gaea has an established brand image of high quality and customers are willing to pay a higher price, it is critical that the Gaea product is always on the shelf to discourage consumers from switching to an alternative brand. At the same time, retailers have high demands. Retailers expect to hold minimal inventory of their products.

There is an increasing interest in natural care products around the world. Regional market share and forecasted growth rates by region can be seen in the table below:

(Note: organic / natural shampoo and conditioner line only)

	<i>North America</i>	<i>South America</i>	<i>Europe</i>	<i>Asia/Pac</i>
<i>Market Share</i>	40%	14%	30%	16%
<i>Regional Growth Rate</i>	18%	8%	14%	14%

The issues facing Gaea

CPFR implementation

In response to increasing demand for Gaea products, Wal-Mart has dramatically increased orders and would like to implement Collaborative Planning, Forecasting, and Replenishment (CPFR) with Gaea. If Gaea does not implement CPFR, Wal-Mart will likely pursue other suppliers who are more capable. Losing Wal-Mart as a customer is not an option since Wal-Mart is Gaea's largest client. Wal-Mart generates 30% of Gaea's revenues and has retailers in the United States, Argentina, Chile, China, and the UK.

Some of Wal-Mart's primary suppliers receive information directly from the point of sale so that their suppliers can immediately respond to demand changes. This communication allows both Wal-Mart and the supplier to keep minimal inventory, reduce the likelihood of a stock-out, and improve forecasting. Gaea's parent company Procter & Johnson is a supplier of Wal-Mart.

It has become clear to Gaea that when P&J acquired the companies in the 80's, they generally left the manufacturers' supply chain alone. Not only does each manufacturer use local transport operators, but also Gaea currently has no centralized database to understand the financial repercussions of not having a global strategy. Gaea has observed that Purchase Order accuracy and on-time delivery is generally

better between the manufacturer and local retailer, but not as accurate with Wal-Mart. Proximity between local retailers and the manufacturer allows easier communication and has helped minimize vendor violations. Wal-Mart's relationship is much less personal. Gaea's relationship with Wal-Mart is data driven and little personal communication occurs. With Gaea's less advanced and integrated data systems around the globe it has been difficult to sustain a strong relationship with Wal-Mart. If deliveries are off or late, it damages Gaea's relationship with Wal-Mart and the risk losing them as a retailer. As part of a CPFR strategy, it is imperative that Gaea look into how they can increase their communication both with local, less technologically developed, customers as well as Wal-Mart and with Gaea's Headquarters in New York City.

South America

Gaea's South American region started production in mid 2009. Though sales have been growing at a slow, but steady pace, bottom line profits for this region are at a stand still. The high costs have been narrowed down to transportation inefficiencies from the manufacturing plant to the distribution centers.

The South American manufacturing plant is located in Buenos Aires, Argentina. This facility acts as a distribution center as well as servicing Gaea's customers east of the Andes Mountains (38% of the South American market). The manufacturing plant is located within a free-trade zone, which has numerous advantages: There are no international trade barriers, lower labor costs, and substantial tax benefits. This location is the most ideal for Gaea, and will not be considered for relocation.

The problem arising in the South American region revolves around its transportation to its two other distribution centers, located in Santiago, Chile and Lima, Peru. Transportation options are limited due to the lack of a formal railroad system throughout the entire continent. Because of this limitation, regional transportation costs are extremely high.

Currently, Gaea is using the original transportation routes set in place by P&J, when the product line was first introduced. Shipments to Santiago, Chile, are transported via air over the Andes Mountains, to the DC located in the vicinity of the Santiago Intl airport, 30 minutes northwest of Santiago. From the airport, Gaea uses a local LTL trucking company, Wehaul, to transport the goods either to Lima, or to Santiago's DC. The Lima DC services roughly 36% of the west coast market, while Santiago services the remaining 64%. Once the shipments are distributed accordingly, customers are able to pick up their orders.

In order to meet customer demand, airfreight from Buenos Aires is shipped weekly to Santiago. However, Economic instability in Argentina has made flight times less reliable and rates have steadily been increasing. As a result, Gaea has inflated transportation costs and a large number of vendor violations due to out of stocks at the distribution centers. The vendor violations are in relation to later order deliveries. By researching all transportation options for Gaea's products, and considering all constraints within the South American region, your team must present the best solution to both decrease costs, and meet customer demand.

As your team sits back and thinks about the situation that Gaea is in, your team agrees upon two distinct problems that need to be addressed: How to implement CPFR in order to retain Wal-Mart as a customer, and what transportation methods are most efficient for distributing goods in South America.

Team Presentation

Prepare a 30 minute presentation that summarizes your approach, assumptions, and analysis by answering the below questions. You are presenting to the executive supply chain committee. The supply chain committee will use your recommendations to determine the strategy. (10-15 minutes post presentation will be provided for comments and questions)

We recommend at least 1 PowerPoint page for each of the following (this is a recommendation)

Introduction

Approach & Assumptions

Analysis

Challenges

Proposed Supply Chain Improvements

Projects: Description, Funding, Savings & Milestones.

Assume that the judges have a background in supply chain with a focus on logistics & transportation and they have read and understand the facts of the case.

Each person on your team must present, equitable allocation of speaking between team members is expected but not measured.

Questions:

- Analyze Gaea's current supply chain network.
- Understand the current physical touch points, DC's and market channels.
- Describe the operational, logistical and financial supply chain challenges that Rick is facing.
- Identify how to incorporate CPFR into their current supply chain operations.
- What are the benefits associated? What risks can you see?