

**15.561A and 15.566**

**Example Case Writeup for  
H.E. Butt Grocery Company: A Leader in ECR Implementation**

## **Answer 1**

### **Competitive Strategy**

- A mixed Every Day Low Price Strategy (EDLP) as the primary pricing policy supplemented by promotional pricing strategy for perishable and snack food items so to provide low prices to its customers which is critical for company's long term strength.
- Use information technology applications judiciously to improve efficiency and channel policies, explore alternative channel supply approaches, and have better inventory management so as to improve inventory turnaround and reduce inventories in store and distributor warehouses.

### **Critical Success Factors**

#### *IT Applications (More details in Answer 2)*

- Use Continuous Replenishment (CRP) to reduce channel costs
- Use Point of sale (POS) scanning, improve its efficiency
- Facilitate computer assisted ordering (CAO), extend it to computerized store ordering (CSO).
- Use Electronic Data Interchange (EDI) for purchase order transmission
- Combine CAO with CRP for a fully linked channel. Continue to use and Improve POS data for planning and forecasting.

#### *Organization Structure and Operations*

- Restructure and organize the company for category management (CM) to reduce costs in the distribution process, reduce resistance to change and develop cross-functional skills. (More details in Answer 3)
- Manage growth generated by reduced prices which have led to market share gains.
- Manage change and number of initiatives being contemplated or initiated.

## **Answer 2**

### **Store Operations**

- POS scanning using UNIX based minicomputers linked to headquarters (HQ) mainframe. VSAT based communication system to increase flow of internal communication and develop software to link store with HQ. Data used by category managers and vendors for planning and analysis. Substantial pay-off, however much more can be anticipated with increase integrity of scanners.
- E-mail to give managers more floor time, flexibility and reduce office time.
- Automated time and attendance.
- Direct Store Delivery (DSD) receiving and invoicing.
- Ordering of goods by scanning shelf tags and transmitting the order to HQ mainframe which then routed the order to one of the seven warehouse for delivery. Based on current IT available, it is acceptable, but can be improved with improvement in POS data integrity.

### **Warehouse Operations**

- Use of CRP so that vendor would supply products using warehouse shipment and inventory data

rather than HEB generated purchase order. CRP requires daily transmission of data on store orders and warehouse inventory levels for all of vendors products. CRP helped in eliminating non-value added costs throughout the channel, reduce inventory levels, eliminate forward buying, provide higher average inventory turns, reduce warehouse stockout and reduced transportation costs. CRP helps the vendor by generating a more predictable demand for smoother manufacturing operations and reduced logistics cost. CRP would help develop good inter-organizational relationship and shift perspective to a long term win-win view. CRP shifts ordering responsibilities to vendors and free managers more time for CM. Enormous pay-off.

- Use of EDI to support CRP as the volume of data transmitted, frequency of transmission, and quality of data transmitted has increased. Initially a PC based system, EDI was moved to mainframe EDI helped in establishing electronic trading relationship. EDI had limited impact on productivity but supported CRP.

### **Impact on Organization**

- Facilitate restructuring of organization for higher efficiency through CM.
- Reduce resistance to change and develop cross-functional skills.

### **Answer 3**

- To take advantage of IT and EDI supported CRP system, HEB has integrated marketing and procurement into CM and separated distribution and purchasing functions as compared to earlier structure of logistics and procurement in prolistics and store operation and marketing as retailing. IT has led to a networked, flat organization where information from the stores flow to the headquarters for category managers to make decisions. It helps in smoother across the board operations and takes uncertainty out of store management.
- Category managers have wider responsibility (such as store display and other marketing functions) for a narrow set of products. Category managers used data to support product placement, introduction and profitability and became the primary profits centers of the company and act as general managers and decision making authorities for their category. Data flows from stores and warehouses to the HQ for all products.
- CRP led to strong cross-functional inter-organizational teams involving vendors and HEB working at functional level to improve joint processes across the companies. Category managers developed relationship for a long term win-win situation. This relationship provides a model for developing effective relationship with non-CRP vendors.
- MIS group develops applications to support, augment the role, and develop tools which facilitate quicker and flexible information flow to category managers.
- IT led to replacement of half of the skilled managers who could not adapt to the new system. IT led periodic restructuring has led to reduced resistance to change and employees with cross-functional skills.

#### **Answer 4**

Yes, HEB follows the rule.

- Decision making powers are with category managers. (More details in Answer 3)
- MIS supports flow of information to category managers. It also develops tools which manipulate the stored data. (More details in Answer 3)
- Information flow is also direct to automated systems for placing orders.
- High performers were suitably rewarded with a compensation package based on an increasing bonus structure and targets supported by good decision-making, 50% bonus for achieving 100% target and 2% bonus for each 1% over target.

#### **Answer 5**

- Use of CRP and EDI (All details in Answer 2 - Warehouse Operations)
- CRP helps in forming cross-function inter-organizational team (More details in Answer 3)
- No, scanners are not essential for this operations as the P&G will ship based on warehouse shipment and inventory data. However, P&G will receive retail store demand of products on CRP. POS scanners can help in electronically tracking the demand and facilitate cross-dock product shipment from vendors to stores directly.

#### **Answer 6**

##### **Challenges**

- Improve efficiency of POS scanning. This will have a ripple effect for developing new IT initiatives. It will facilitate CAO and in future, CAO and CRP can be fully linked channel. Moreover, with the development of techniques to forecast store demands, CSO can be implemented. This will enhance product variety in stores with minimal risk of product stockouts. The payback will be in term of increase cost-effectiveness in distribution channel, a more automated inventory ordering and management process. Furthermore, shipments can be further optimized for volume and weight loading size. The integrated system can be used for cross-dock product shipments.
- Develop Electronic shelf tags. This would reduce errors and shrinkage (when clerk gives product free to keep line moving instead of verifying prices). It will increase price credibility with customer as the low price can be electronically posted and tag printing is not required. This would improve a manually intensive process and have excellent payback, both in terms of customer loyalty (sales growth) and cost-effectiveness.