

## *A.S. Watson grows sales while cutting stockpiles*

*By Jon Marsh*



**A**S YOU STROLL along the different aisles of PARKnSHOP or the various sections of Fortress, have you ever wondered how the shops keep track of their stock levels? A.S. Watson (ASW), which has more than 7,700 retail stores in 37 markets around the world and sells everything from fresh chicken, cheese and shampoo, to televisions, CD players and vintage wines, has the answer – superb supply chain management.

Supply chain management, a term coined by Keith Oliver of consulting firm Booz Allen Hamilton in 1982, is the process of planning, implementing and controlling the operations of the supply chain to satisfy customer requirements as efficiently as possible. It spans all movement and storage of raw material, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption.

To find out more we turned to Keith Bartlett, ASW's Chief Operating Officer of Retail Hong Kong, who has been with the company for 16 years and is responsible for around 500 outlets of six different retail outlets – including 223 PARKnSHOP and 190 Watsons branches, and 52 Fortress, TASTE, GREAT and Watsons Wine Cellar outlets.

“When I started, I was the supply chain department,” he said. “There was very little science to the process. We had to invent the whole system. Of course back then it was all done manually and now much of the process is computerised but the principle remains the same – give the customer the best possible range of products at the best possible prices.”

Today, PARKnSHOP uses less warehouse space than in 1991, even though customers are provided with much more choice and the supermarket chain's sales have increased by more than four times.

ASW manages its supply chain carefully. It all starts with the sourcing process. Once a supplier is found, the next step is to work out how the product will be transported to the store. This journey might take just a few minutes if a local supplier delivers the item in question, a few hours if coming from Mainland China, or less than 24



# CHAIN of

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hours if fresh produce needs to be air freighted from Australia or New Zealand.

“Great efforts have had to be made in the fresh food area, sometimes building completely new supply chains to deal with chilled pork or live fish,” he said. “Quality control and traceability are hugely important to guarantee the safety of food and deliver it in the minimum time to offer the highest freshness to the customer.”

## BY THE NUMBERS

- ASW's shipping department imports more than 10,000 containers a year and over 150 tons per week of air freight
- There are 200 delivery trucks on the road every day
- PARKnSHOP serves four million customers a week and sells more than one billion items a year, including:
  - + 1.5 million oranges every week
  - + 1,000 tons of rice a day
- Watsons Your Personal Store sells 100,000 bottles of shampoo and conditioner a week

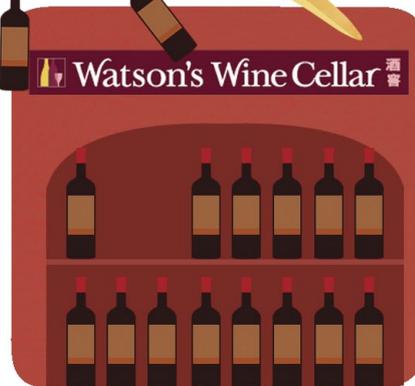
On the other hand it might take weeks if the product is sourced in Europe and has a long shelf life. For example, in the UK, consolidators are responsible for shipping hundreds of different items in single containers to meet the demands of the large expatriate community.

On arrival, most items are taken to one of the four PARKnSHOP warehouses in Kwai Chung, Fotan, Sheung Shui or Sha Tin (Watsons and Fortress have separate warehouses) before making their way to the individual stores.

ASW will then use a diagram called a planogram to show how and where specific products should be placed and displayed in the store to increase customer purchases. They are developed using key pieces of information about products, such as the amount of remain-

ing inventory and volume of sales per square foot of retail space.

Although the item has now been sourced, purchased, transported, delivered and displayed, and all the customer has to do is put it in their trolley, the supply chain is not yet complete as the shelves will soon need to be refilled.



“Replenishment is perhaps the most important part of the whole process because if you get it wrong it shows the supply chain isn't functioning properly,” explains Mr Bartlett. “How



## *The computer knows how much stock is left and when to re-order*

capacity is stretched to the limit and delivery schedules have to work like clockwork. The pressure is intense because many wet markets close for several days over the holiday.

But even the best-oiled supply chain can come under pressure when Mother Nature comes calling. “Typhoons are a real headache as they cause so much uncertainty,” said Mr Bartlett. “Will the No 8 signal go up? If so, how long will our stores be closed for? Which of our suppliers will keep delivering? The warehouse gets completely jammed and it’s a real juggling act to keep everything moving.

“I have to say that the warehouse staff are absolutely fantastic and cope with everything that is thrown at them. We have a very hard-working and loyal team which just goes to show that no matter how good your technology is you still need the right people to make the system work.”



much stock is on the shelf? What’s the expiry date? When to re-order? These are the factors you have to consider. Today, thanks to the marvels of modern technology this is all done automatically. The computer knows how much stock is left, both on the shelf and in the warehouse, and when to re-order.

“PARKnSHOP is a very automated operation, as is Fortress, and Watsons will be fully computerised in 2007. The system is much more efficient today. It has to be because we have less warehouse space than we did 15 years ago and sales have increased several times! There is only three weeks’ stock in the whole supply chain. This cuts down on costs and gives the company much more working capital.”

To allow suppliers a much quicker turnaround, ASW has employed a proprietary system from Retek, which was recently acquired by technology solutions provider Oracle. The system enables the stock records for every product in every store to be captured on the computer and for replenishment orders to be automated. The orders can be sent electronically to suppliers and invoices can be received by electronic data exchange.

Refining the supply chain is a process that has been going on for more than a decade. One of the first big changes came in 1995 when ASW standardised the size of pallets used for deliveries by suppliers and 14 different sizes became one, improving delivery times enormously. More recently, Fortress has decreased its stock levels by more than half in the last three years, and PARKnSHOP and Watsons Your Personal Store are merging their supply chain operations to improve efficiency.

Chinese New Year is the biggest challenge for a big supermarket. The volume of goods increases, especially seasonal items, but the amount of retail space remains the same. Warehouse

### COMPUTER MAGIC

**T**ERRY CHAU thinks back to the “bad old days” and groans. “Everything used to take so long. It took hours every day to work out what had to be ordered because it was really difficult to estimate how many of a particular product we might sell in a day,” said the PARKnSHOP veteran of 25 years. “Now the computer does it all for you!”

Mr Chau has witnessed dramatic changes in the supply chain, none more so than the new computer system that can trace the path of every item in every store and automatically re-orders stock when necessary.

“It makes life a lot easier for everyone, including the customer,” said Mr Chau, who manages the huge PARKnSHOP in Discovery Bay. “One of the big advantages is that there are far fewer out of stock items and less products go past their sell-by dates. Our customers get a wider range of fresher food.”

The Discovery Bay store now serves 30,000 customers a week and offers the widest range of overseas products of any PARKnSHOP store because of the large expatriate population.

A decade ago, only 500 items from overseas were on sale in PARKnSHOP; today the number is more than 30,000.