

REAL WORLD CASE 5

Wal-Mart and Mattel: Supply Chain Management Best Practices

Being a supplier to Wal-Mart is a two-edged sword,” says Joseph R. Eckroth Jr., CIO at Mattel Inc. (www.mattel.com). “They’re a phenomenal channel but a tough customer. They demand excellence.”

It’s a lesson that the El Segundo, California-based toy manufacturer and thousands of other suppliers learned as the world’s largest retailer, Wal-Mart Stores (www.walmart.com), built an inventory and supply chain management system that changed the face of business. By investing early and heavily in cutting-edge technology to identify and track sales on the individual item level, the Bentonville Arkansas-based retail giant made its IT infrastructure a key competitive advantage that has been studied and copied by companies around the world.

“We view Wal-Mart as the best supply chain operator of all time,” says Pete Abell, retail research director at high-tech consultancy AMR Research in Boston. Abell says he expects the company to remain in the vanguard. “Wal-Mart is evolving; they’re not standing still,” he says. The company is still pushing the limits of supply chain management, he says, searching for and supporting better technology that promises to make its IT infrastructure more efficient. Radio frequency identification (RFID) microchips, for example, may replace bar codes and security tags with a combination technology that costs less money.

Early on, Wal-Mart saw the value of sharing that data with suppliers, and it eventually moved that information online on its Retail Link website. Opening its sales and inventory databases to suppliers is what made Wal-Mart the powerhouse it is today, says Rena Granofsky, a senior partner at J. C. Williams Group, a Toronto-based retail consulting firm. While its competition guarded sales information, Wal-Mart approached its suppliers as if they were partners, not adversaries, says Granofsky. By implementing a collaborative planning, forecasting, and replenishment (CPFR) program, Wal-Mart began a just-in-time inventory program that reduced carrying costs for both the retailer and its suppliers. “There’s a lot less excess inventory in the supply chain because of it,” says Granofsky.

That efficiency is the key factor in maintaining Wal-Mart’s low-price leadership among retailers, says Abell. “Their margins can be far lower than other retailers’ because they have such an efficient supply chain,” he says. The company’s cost of goods is 5 to 10 percent less than that of most of its competitors, Abell estimates.

Wal-Mart’s success with supply chain management has inspired other retail companies, which are now playing catch-up, says Abell. “Others are now just starting. They’ve all had inventory systems, but sharing the data with their partners hasn’t been easy,” he says. Wal-Mart’s influence has extended beyond the retail sector. Mattel’s Eckroth says that he studied Wal-Mart’s supply chain best practices when he

worked at a manufacturing division of General Electric Co. “They’re a benchmark company,” he says.

One reason Wal-Mart is studied so closely is that it gets buy-in from its suppliers to an incredible degree. That’s because its programs and practices benefit not just the retailer but its partners as well, says Eckroth. CPFR, he says has “blurred the lines between supplier and customer. You’re both working to the same end: To sell as much product as possible without either of us having too much inventory. We’ve learned that if we listen to Wal-Mart, take their initiatives seriously, and align our strategies with making them successful, we both can succeed.”

Mattel has learned a lot from working with Wal-Mart and is bringing those lessons to bear in its relationship with other channels, says Eckroth. “Getting the supply chain optimized inside of Mattel is only 50 percent of the equation,” he says. “The other 50 percent is getting tightly linked with every one of our customers so that we’re reacting as quickly as they’re giving us data.” Tight links, Eckroth says, will enable Mattel to tackle the next big business problem: increasing manufacturing efficiency.

“My ability to get information about the sales pace of a toy and either ramping up or shutting down manufacturing depends on my having data,” he says. Having sales data on a daily or hourly basis is necessary to figure out on a microlevel what is selling best where and tailor manufacturing accordingly. The greatest efficiencies will appear when the kind of trusting mutually beneficial relationship Mattel has with Wal-Mart is duplicated with the rest of the manufacturer’s retail outlets.

“Having that data on a global basis from every one of my customers allows me to optimize the sales of my products and the fill rates of my customers,” Eckroth says. “The theme for the future is that at the end of the day, there can be a symbiotic relationship between companies.”

Case Study Questions

1. Do you agree that Wal-Mart is “the best supply chain operator of all time”? Why or why not?
2. What has Mattel learned from Wal-Mart? How well are they applying it to their own business? Explain your evaluation.
3. What can other businesses learn from the experiences of Wal-Mart and Mattel that could improve their supply chain performance? Use an example to illustrate your answer.

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