

# Voice of the Customer: A Conversation with Walgreens on VMI

Taken from a Session at the  
TrueCommerce Datalliance VMI Forum



## INTRODUCTION

Representatives from Consumer Packaged Goods (CPG) suppliers attending the TrueCommerce Datalliance VMI Forum had a unique opportunity to interact with the Walgreens Director of Supply Chain Collaboration & Development, Laura York.

Walgreens, part of the Retail Pharmacy USA Division of Walgreens Boots Alliance (WBA), is the United States' largest drugstore chain with over 8,000 stores in all 50 states, the District of Columbia, Puerto Rico and the US Virgin Islands. Seventy-six percent of all Americans live within five miles of a Walgreens.

In a very enlightening small-group session, Ms. York shared perspectives on the role of VMI in transforming the Walgreens supply chain over the next few years to help achieve the vision of being "the #1 patient and customer driven supply chain in the world through segmentation and agility." She emphasized that, in order to deliver extraordinary customer care with the right products and solutions in every community, Walgreens requires relentless focus on product availability, inventory productivity and cost productivity. She also said that Walgreens will be transforming their approach to DC operations and virtually all of their own internal systems over the next few years to help achieve that transformation.

The audience included VMI Program Managers, VMI Analysts and VMI Executive Sponsors from leading CPG suppliers such as Bumble Bee Foods, Dannon, Georgia Pacific, Henkel, Johnson & Johnson, Kimberly-Clark, King's Hawaiian, Markwins Beauty, Mylan Pharmaceuticals, Nestle Purina, Ocean Spray, Procter & Gamble, SC Johnson, Sun Products, Unilever, and others.

We at TrueCommerce Datalliance thought the essence of what Walgreens had to say would be of value to all of our CPG customers, so we have captured the main contents of the session in this paper. We hope you find it useful.

"We actually did value-stream mapping with a supplier and identified the time and effort required by both parties in a non-VMI relationship. From that study, we saw what a great opportunity there is to eliminate unnecessary time (up to 1.5 days of processing) using VMI."

– **Laura York**

Walgreens Director of Supply Chain Collaboration & Development

## VMI AT WALGREENS - PAST, PRESENT AND FUTURE

Laura York briefly reviewed that Walgreens sees VMI as a collaborative replenishment process between Walgreens and suppliers, and that suppliers share accountability for product availability and inventory productivity. She also shared how Walgreens view of VMI has evolved – and continues to evolve – over time:

- ▶ **Past:** very limited (< 5 suppliers)
- ▶ **Present:** open to VMI (13 suppliers live; 2 testing; 3 more in consideration)
- ▶ **Future:** continued growth across potentially all categories
- ▶ **Common Goals and Measures** (supported by shared information)

She said: "We are very excited about the potential we see with VMI going forward," and then outlined what Walgreens sees as the primary benefits of VMI:

- ▶ Reduce supply chain costs through more efficient ordering
- ▶ DC-to-store service level improvement
- ▶ Inventory productivity improvement (DOS)
- ▶ Store in-stock improvement (SSIS)
- ▶ Enhance collaboration

She then added: "We actually did value-stream mapping with a supplier and identified the time and effort required by both parties in a non-VMI relationship. From that study, we saw what a great opportunity there is to eliminate unnecessary time (up to 1.5 days of processing) using VMI."

## SUPPLIER REQUIREMENTS AND PROCESS

Ms. York listed the requirements a Walgreens supplier must meet to be considered for VMI:

- ▶ Active collaboration (pre- and post- VMI implementation)
- ▶ Capable of receiving/transmitting required EDI feeds (852, 830, 855, 870)
- ▶ Provide a replenishment tool for calculation of replenishment orders
- ▶ Provide at least one fully dedicated VMI analyst
- ▶ Provide at least one trained backup VMI analyst
- ▶ Provide weekly VMI performance scorecard
- ▶ Understand Walgreens applications and data in SupplierNet
- ▶ Convert off-invoice deals to bill-back deals (except cash discounts)
- ▶ Sign VMI Contract

She added: "We see the most success with suppliers using a high quality tool – especially those using TrueCommerce Datalliance."

Ms. York then outlined the process Walgreens goes through when establishing a VMI relationship with a supplier:

- Prospective Vendor Survey completion and review
- EDI and Supplier replenishment system mapping
- Item certification: update item catalog, promotional lead time, etc.
- Align on metric goals and collaboration schedule

- Execute VMI Contract
- Phase 1: Onboard initial DCs
- Phase 2 : Onboard remaining DCs
- Ongoing scorecard review and management report-out

She added that the decision to enter into a VMI relationship is a joint one between the supplier, the Walgreens inventory management team, and the supplier collaboration team.

### BEST IN CLASS SUPPLIER COLLABORATION

Presenting from the following chart, Ms. York then discussed what Walgreens sees as best in class performance on the part of a VMI supplier.

SUPPLY CHAIN OUTCOME		BEST IN CLASS
Product Availability	SSIS, SL & Fill Rate	Monitor all metrics daily/weekly. Provide updates, insights, recommendations, and action plans to WAG supply chain.
	New Item Launches	End to end collaboration on new product launches and transitions. Work with WAG 12+ months ahead of launches. Track distribution of all new items through to WAG stores and performance/settings for items 13 weeks post launch.
	Seasonal Planning	Robust seasonal planning and preparation process, including inventory build, execution throughout the season, and exit strategy development and execution.
Inventory Productivity	DC Order Parameters	Regular review of ordering parameters: order minimum, order frequency, etc.
	Store Order Parameters	Regular review and recommendations of store replenishment settings to deliver optimal DOS and SSIS.
Collaborative Relationship	Resources	Dedicated supply chain analytics resources with regular onsite presence.
	Tool Utilization	Dedicated resources working in PDX and activity in RSI and SupplierNet to bring insights to execution to deliver on joint goals.
	Collaboration	Utilize WAG collaboration agenda. Bring data, insights and track action items to drive business forward.

### VMI BEST PRACTICES

Ms. York then listed additional best practices that Walgreens sees as important to successful VMI implementation:

- Ongoing optimization of replenishment settings.
- Replenishment tool adjust to rapid fluctuations in demand, seasonality, item exit or expansion, and disaster handling (e.g. hurricane, communicable disease outbreak, etc.).
- No backorders (fill and kill).
- Prevent overstock and excess inventory; timely resolution when it does occur.
- Trained backup staff for VMI replenishment.
- Collaboration between Supplier CPFR and VMI teams.

### VMI PRACTICES TO AVOID

With her final slide, Ms. York discussed Walgreens' view of poor VMI practices:

- Incomplete use of WAG EDI data transmissions in VMI replenishment tool.
- Inconsistent or infrequent monitoring of SSIS and DOS.
- Inactive/inconsistent collaboration for seasonal planning with Walgreens.
- Does not reliably execute joint DC inventory plan through VMI.
- Does not communicate early and often when supply issues arise.
- Lack of collaboration on store level inventory or parameters.
- Lack of collaboration on display planning.
- Incomplete use of collaboration template.
- Inconsistent use of VMI scorecard.

**SUMMARY:**

TrueCommerce Datalliance and the entire TrueCommerce Datalliance customer community wish to thank Walgreens – and Laura York personally – for taking the time to participate in the TrueCommerce Datalliance VMI Forum. The information presented was well organized and very insightful. Laura obviously knows a lot about VMI and her company, and took care to prepare well. We also thank the audience for their engagement and excellent questions.

**ABOUT TRUECOMMERCE**

TrueCommerce revolutionizes trading partner connectivity, visibility, and collaboration by linking suppliers, retail hubs and end consumers in one global commerce network. From the factory to the warehouse, from distributor to retail storefront, achieve new levels of business connectivity and performance with the world's most complete commerce network.

Connect. Integrate. Accelerate.

**QUESTIONS AND ANSWERS**

After the prepared part of her talk, Ms. York then opened up for questions from the audience and quite a few ensued...

**Q: How accurate are Walgreens 830 (forecast) transactions?**

**A:** As good as we can do today. We know they can be better, but we do want suppliers to consider our forecast in their planning.

**Q: What level of collaboration do you expect? Do you review all orders before they can be placed?**

**A:** We expect a high level of collaboration between our VMI suppliers and our Inventory management team, however after start-up, we do not review all VMI orders – just the scorecard and exceptions.

**Q: Do Walgreens buyers ever not want to give up ordering control?**

**A:** Yes. Occasionally, one of our inventory groups expresses concern about moving to VMI. That's why we stress collaboration. Our inventory management team is still responsible for performance, and they are now beginning to let go as they see the results VMI can deliver.

**Q: What is the timeframe for Walgreens' systems renewal?**

**A:** The Renewal project that will replace many of our legacy systems is a 5 to 7 year journey that we are about 1.5 years into. We will have a combination of solutions from JDA and SAP.

**Q: Of your 13 current VMI suppliers, how many have an on-site resource with Walgreens?**

**A:** The majority of our VMI partners have on-site dedicated resources.

**Q: How do you evaluate suppliers for VMI?**

**A:** If you are not a VMI supplier for Walgreens, we evaluate your capabilities based on your responses to our prospective VMI vendor survey. If you are already doing VMI with other retailers, that is helpful. If you are using TrueCommerce Datalliance, that is good as well.

**Q: How should we approach Walgreens if we are interested in setting up a VMI relationship?**

**A:** You can come directly to me. It's probably a good idea to tell the inventory manager you work with, but you can just approach me to get the conversation started

**Q: What is SSIS?**

**A:** Subscribed Store In Stock. In other words, the product is subscribed to a given store (i.e. it should be present in a home location at shelf) and the measure tells us whether or not that merchandise is in fact available in that store.

**Q: Can you share metrics about our products such as SSIS with us?**

**A:** Yes – we have started sharing that via RSi and SupplierNet (our extranet for suppliers).

At the end of the session, a number of suppliers in the audience approached Laura to exchange contact information and discuss possible VMI relationships.

**THE TRUECOMMERCE DATALLIANCE TEAM IS HERE TO HELP!**

If you have any questions regarding TrueCommerce Datalliance and VMI, or how it applies to your business, our passionate, focused team is here for you.

Call us today at 513.791.7272

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