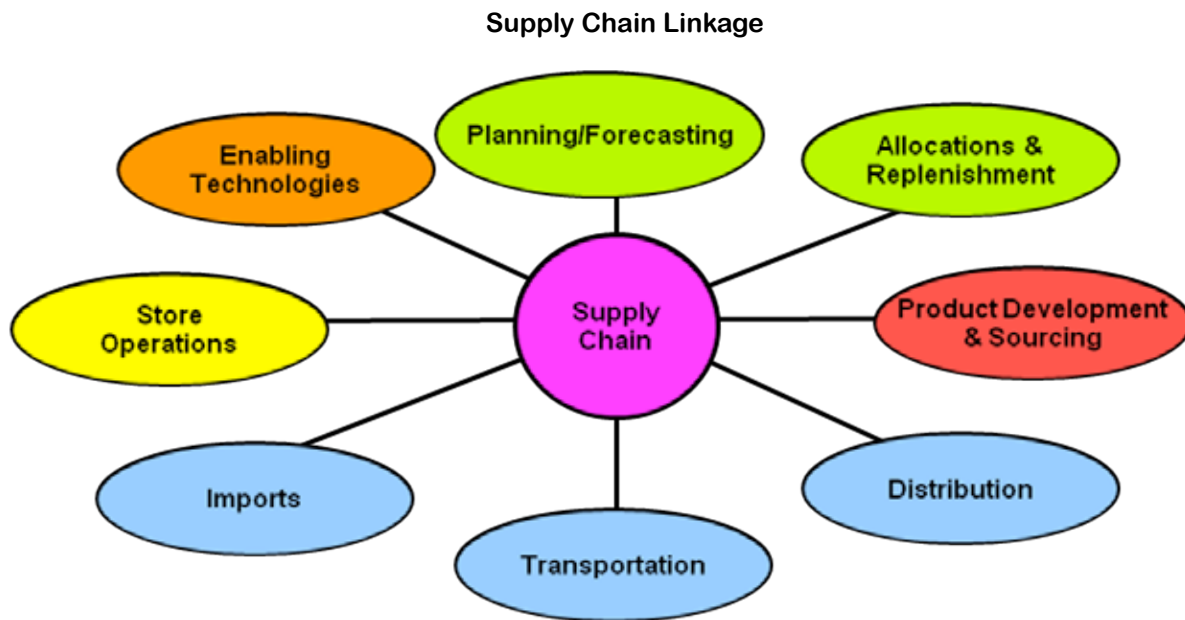




Supply Chain Transformation: A Retailer’s Story on Creating a Flexible, Scalable and Efficient Solution

Anna’s Linens, a national tier 2 retailer, was facing rising supply chain costs, inventory growth, an unacceptable store level in-stock position for ad product, and an overdependence on bundled transactional pricing from third party providers for logistical services and logistics data capture. Faced with the challenges of an increasingly competitive retail environment, Anna’s Linens embarked upon a strategic shift regarding the role of the supply chain within the organization. The goal was to create a flexible, scalable and efficient supply chain that would provide a greater return on human, systems and physical capital.

The approach consisted of two phases. The first phase included an initial assessment of the current state capabilities, including a detailed gap analysis of supply chain processes and system flows, the creation of a template to identify supply chain baseline costs, and training/knowledge transfer sessions aimed at developing a corporate culture which values and understands the supply chain as a linked system and not simply discrete functions.



Phase two of the engagement focused on creating and implementing four transformation enablers: (1) employing technology, (2) logistical infrastructure development, (3) process re-engineering, and (4) metrics alignment.

The summaries below provide a brief overview as well as the relative sequencing of events.



Employing Technology

From a technology perspective, the initial focus was centered on implementing two critical pieces of technology:

- Implementation of JDA's MMS – Advanced Warehouse Management System (WMS)
- Implementation of the Manhattan Associates Extended Enterprise Management (EEM) supply chain visibility application

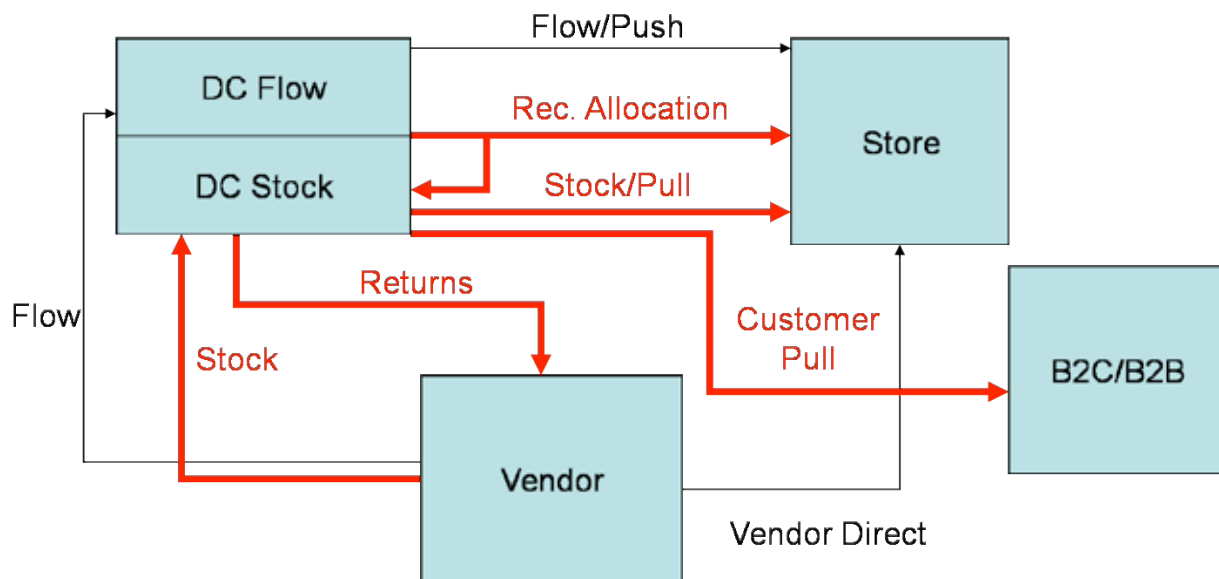
The technology implementations became the catalyst for addressing a number of critical needs:

- The development of internally controlled and owned data points for reporting.
- A timely and accurate source for supply chain movement.
- A decreased dependency on third party distribution and transportation reporting.
- The movement from a paper based to an RF based distribution environment.

Logistical Infrastructure Development

The establishment of a technology base allowed for the immediate creation of a more capable logistic infrastructure centered on a regional distribution center (DC) model. Due to limitations inherent with the third party systems, purchase orders were written in a ship-to-mark for store format or flow model indicated in the diagram below as black flow arrows. The adoption of MMS-WM allowed for a multi-channel approach represented in the diagram below as red flow arrows while retaining the ability to flow product.

Multi-Channel Distribution Capabilities



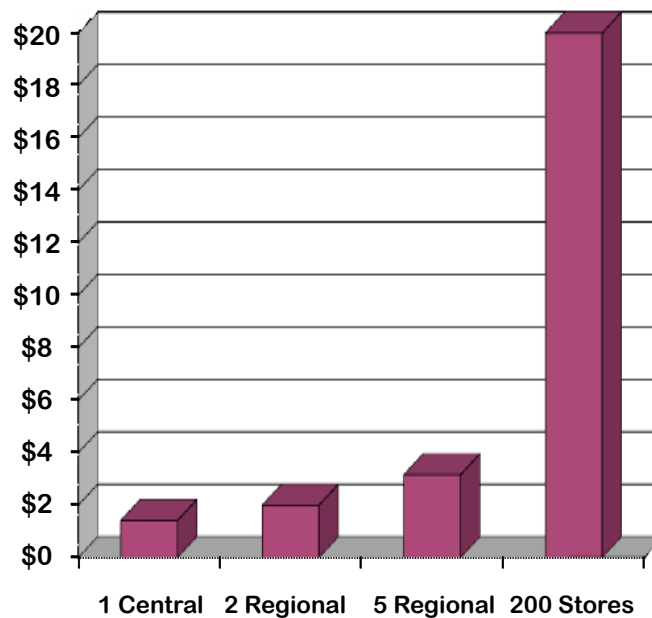


While the installation of MMS-WM provided increased visibility to product movement and inventories within the DC, the ability to track product throughout the shipment life cycle was made possible by the installation of Manhattan Associates EEM application. The combination of increased distribution capabilities and product movement visibility made a significant contribution in reducing order-to-shelf lead times and variances. Given the decreased processing times, as well as the ability to respond proactively to developing issues within the supply chain.

Process Re-Engineering

There were a number of internal challenges relating to the growth of inventory when compared to both organic comp sales growth and new store inventory growth, even when variances due to product cycle times were taken into account. A key factor centered on the practice of store level ordering for all shipment types (DC Flow and DSD). The movement away from store level ordering to a consolidated corporate or DC based order point was one of several factors which made an impact on inventory levels. The graph below, provided for illustrative purposes, demonstrates required inventory safety stocking levels for a single DC scenario, a two network DC scenario, a five network DC scenario and a store level order network. The comparison represents the differing dollar value (in millions) required to maintain a set service level.

Dollar Value of Safety Stock Requirements for Aggregate and Store Level Ordering (in millions)





The combination of reductions in product life cycle times and the movement toward central aggregated ordering played a role in the following areas:

- Reductions in overall company inventories while maintaining or improving in-stock levels
- Significant reductions in the number of purchase orders created
- Corporate staff reductions
- Improved invoice auto match accuracy

Additional process re-engineering activities focused on the creation of the retailer as an importer of record, which reduced the net landed cost of goods. The importation initiative also allows for future off-shore consolidation opportunities. The process of becoming an importer of record created an immediate positive impact to COGS and margin.

Metrics Alignment

A series of metrics with a focus on the entire supply chain was developed, taking elements from each area to develop a daily view of supply chain operations. Each area's key performance indicators were identified with business users, as well as those metrics generally accepted as industry standards, such as cost per carton, order processing cycle time, pick accuracy and aging. The goal of the reporting systems and metrics design was the reinforcement of the retailer's goals and objectives. During the process, a series of common attributes for successful metrics was established. Namely, metrics should be easily understood, provide consistent and time sensitive information, as well as provide the appropriate level of information required for the business user.

Conclusion

By creating a customized solution, Anna's Linens was able to reduce costs and improve the efficiency of its supply chain. Anna's Linens has also achieved several important goals by controlling costs, better managing inventory, and eliminating dependence on third party providers.

About Anna's Linens, Inc.

Anna's Linens has been furnishing homes since it opened its first store in Los Angeles in 1988. Now Anna's Linens has more than 260 locations in 18 states with plans to continue growth into other new markets. Anna's Linens offers uncompromising value in quality priced home retailing. The broad assortment features bedding, bath, window treatments and other home décor. For more information, visit www.annaslinens.com.



Integrating people, process and IT.



About RPE

RPE is a leading strategic consulting services provider exclusively focused on the challenging needs of the retail industry providing implementation, integration, modification, business process re-engineering, system upgrades and systems management services for retailers worldwide. RPE's professional services offerings are focused on customized retail solutions including the implementation and integration of retail and supply chain business applications. RPE works with retailers implementing a variety of leading software applications including JDA Software, Manhattan Associates, Island Pacific and most other solutions. For more information, visit www.rpesolutions.com.
