

NASSTRAC Shipper of the Year: Stein Mart's \$20 million save

By re-engineering its supply chain, the fashion retailer reduced transportation expense, lowered store operating costs, enhanced labor planning, improved communication with its vendors, and was the hands-down winner of the 2011 NASSTRAC Shipper of the Year Award.

BY JOHN D. SCHULZ, CONTRIBUTING EDITOR

There are times when a company realizes that the old methods of doing business just aren't efficient any longer; and that usually calls for a complete overhaul in an attempt to reap rewards commensurate with the risks. For the supply chain team at Stein Mart, a fashion retailer with 260 stores and \$1.2 billion in sales in fiscal year 2010, going "all in" was definitely in the cards.

For years, Stein Mart relied on parcel carriers to deliver merchandise to its stores. Although this direct method enabled the product to get to its stores quickly, there were a number of obstacles—primarily related to transportation and store operating expenses.

"If you spoke with our merchants, they probably would have given us a grade of B," says Rick Schart, vice president of supply chain. "They were under the impression they were getting things fast. But if you talked to our store managers, they would have probably given us a D. Maybe a C-minus."

Stein Mart executives are no longer grading themselves so harshly thanks to a complete overhaul of its supply chain operations. Parcel carriers were replaced by a network of less-than-truckload (LTL) and truckload (TL) carriers. Although Stein Mart was receiving discounts from its parcel providers, a foundation of the retailer's new network—launched in March 2009—was to move freight via LTL and TL providers.

Changing operations to this approach has certainly proven more cost effective; in fact, shifting to those carriers and creating dedicated and pool distribution lanes resulted in savings well beyond just transportation.

According to the supply chain team, the company has

also realized labor savings due to the fact that the stores now know exactly—down to the half hour—when their freight will arrive, and new vendor requirements ensure that the merchandise is already ticketed and floor ready, reducing labor costs at the store end. Now, if workers are needed, they arrive at roughly the same time as the trucks.

The success of its supply chain redesign was so dramatic that Stein Mart has been chosen to receive the 2011 NASSTRAC (National Shippers Strategic Transportation Council) Shipper of the Year Award. It's the highest honor that NASSTRAC awards to its members, and, according to Executive Director Brian Everett, it is designed to recognize innovative methodology in the shipper community.

"NASSTRAC chose Stein Mart as the 2011 Shipper of the Year due to the retailer's willingness to take bold steps in fully implementing an innovative, new supply chain," says Everett. "By incorporating a new inbound network of LTL, truckload, and intermodal carriers, as well as an outbound network of dedicated fleets and pool distribution companies, Stein Mart was able to significantly improve shipping performance, create efficiencies, and decrease costs. Clearly, Stein Mart's innovative approach epitomizes the transportation and supply chain best practices that we encourage within our industry."

This year's winning team is led by three retail veterans recruited by Stein Mart in 2008 and 2009 to engineer this feat, including: Rick Schart; Gregg Sayers, director of supply chain transportation; and Bill Stover, director of supply chain operations. Together they hired a group of individuals with varying degrees of supply chain expertise to build out



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Bill Stover (left), director of supply chain operations; Gregg Sayers, director of supply chain transportation; and Rick Schart, vice president of supply chain, Stein Mart.

what's now a cohesive supply chain team focused on providing support to their merchant, store, and vendor partners—and, of course, keep costs in line.

So, what are the total cost savings? Try about \$20 million annually; and that's ongoing, year after year, says Schart.

DEFINING THE CHANGE

Historically, Stein Mart was shipping freight directly from its vendors to its 260 stores via small parcel carriers. Even though the parcel carriers were doing a commendable job of delivering the merchandise in a timely manner, this process had its drawbacks.

Compliance with packaging and floor-ready guidelines was difficult to monitor and measure, freight visibility was limited, and store delivery appointment times were not consistent and often occurred while stores were open for business.

“From a cost standpoint it was expensive,” says Sayers, who adds that these costs were not limited to moving the cartons from vendor to store. “There were expenses at the stores to get the merchandise ready to sell; and there were also problems with managing the receipt of our product and our ability to reconcile anything that was not in compliance.”

In 2008, at the low point of the Great Recession, many U.S. businesses were hurting. Stein Mart made a conscious decision to review all expenses and make the organization work more efficiently. Part of that decision was to take an overall look at its supply chain and to ultimately move to a more sophisticated, cost-effective model.

“Based on the business review that occurred in 2008, and with full support of the organization, we began to transition our supply chain,” says Schart. “I

arrived in November 2008, and Bill and Gregg were my first hires. We were confident we could pull it off, but we were concerned *how fast* we could pull it off.”

According to Schart, it came down to three keys: getting the right people on board to develop and manage this new strategy; finding the right carrier and 3PL partners; and partnering with the rest of the Stein Mart organization, especially IT, to align and support the new concept.

The groundwork for launching the new supply chain took about six months. It involved educating vendors on new processes and expectations, working with finance to develop systems to capture costs, launching technology (including EDI for billing), as well as hiring a new set of 3PLs and TL and LTL carriers. “Those six months were grueling, but worth it,” says Sayers. “We all aged in dog years in those six months.”

PUTTING IT TO WORK

In May 2009, Stein Mart launched its new supply chain network. The four-wall network is comprised of consolidation centers (CCs) and stores distribution centers (SDCs). The inbound transportation network is comprised of TL, LTL, and intermodal carriers. The outbound transportation network is comprised of dedicated fleets and pool distribution companies.

Almost immediately upon launch of Stein Mart's new supply chain, things changed. Through its vendor support program, the company began partnering with its vendors, educating and communicating new expectations and guidelines. These included pre-ticketing and pre-hanging requirements to ensure the merchandise was "floor ready."

The team also included several new EDI transactions, which replaced a less sophisticated method of billing. Goods are all identified through the use of industry standard bar coded shipping labels. "We did very little EDI before this started," says Stover. "We had to lay all of that groundwork."

The result of this partnership was that stores were able to receive the product by scanning the carton, as opposed to having to open and tally each unit within the carton. This significantly reduced the time a carton spent in the back room of the store and ensured merchandise could be on the selling floor immediately after receipt. "Our vendors deserve a tremendous amount of credit for their efforts to adjust their processes to support our new supply chain," says Schart.

Stein Mart's distribution centers took over the role of inspection and value added services such as ticketing and validation of carton contents. This ensured that when cartons arrived at the stores, the merchandise inside was exactly what the stores had been allocated by the merchants. A new delivery network introduced day/time definite deliveries so the stores could plan on—within a half-hour—the expected delivery of their merchandise, making labor scheduling much more efficient.

Stein Mart's shipping performance on both inbound and outbound was also dramatically improved. Through its vendor program, the supply chain team can

see whether a vendor is shipping early, on time, or late so appropriate communication and steps can take place with both the vendors and the merchants.

The inbound transportation network is tracked at the purchase order level, enabling the supply chain to communicate the arrival of trailers into the store distribution centers, allowing for better labor planning within these operations as well.

From a delivery standpoint, Sayers says that the on-time percentage runs over 95 percent—measured down to the hour. "The small package guys simply don't measure it that closely. They measure on-time in terms of days, we now measure in terms of hours," says Sayers, adding that the team needed to get much more surgical in its commitment to the stores.

"We needed to develop a delivery method to ensure that stores can accurately plan the number of associates that they're going to need to receive the product," says Sayers. "Our goal is to have all our merchandise on the floor before the store opens; so, when a customer walks into our store, the customer sees a fresh assortment of merchandise ready. That's another benefit."

Stein Mart's three consolidation centers and three store distribution centers are operating by 3PLs. In addition, Stein Mart operates its own building near its Jacksonville, Fla., headquarters to store offseason buys and to provide pick pack and warehousing services. "One thing that we're most proud of is that once we went live with our network in May of 2009, we went from zero to running 90 miles per hour overnight," says Stover.

REAPING REWARDS

There are not many retailers in America able to boast of a supply chain initiative that contributed \$20 million directly to the bottom line. According to Schart, these savings came from reduced transportation expense; lower store operating costs from better labor planning and reduced floor-ready processing; new visi-



bility to purchase order delivery status; and improved communication and cooperation with vendors.

"The small parcel carriers are great service providers, so getting our packages to stores was not the issue," says Schart. "But

by setting up our new network and establishing new vendor expectations, we were able to improve the quality of the delivery experience that now results in the merchandise being received, unpacked, and on the store's selling floor before the store opens. That's a huge benefit."

Because Stein Mart utilizes a small core carrier base, it's able to keep those carriers busy consistently throughout the year—resulting in favorable rates. It initiates regular conference calls with its carrier base to keep them up to speed on recent trends in the flow of freight, the upcoming seasons, or changes in processes that will affect the carriers, the stores, or the network.

"We want to be a good steward for our merchant partners," says Schart. "At the end of the day, our buying and allocation teams drive product into our stores. Being supply chain experts, we use our skills to correct issues and set higher expectations for every shipment to ensure timely, floor-ready delivery. If the right merchandise gets to the right store at the right time, that's a win for everybody."

Despite winning Shipper of the Year, Stein Mart is certainly not resting on its laurels—true to its corporate culture. "We're always analyzing what we can do better, faster, and more efficiently and looking for additional process improvement opportunities," says Stover.

Sayers adds that much of the credit goes to Stein Mart's organization for agreeing to this revolutionary logistics operations change. "This was a major change," he says. "The support we received from the top down across our entire organization was phenomenal. It could have gone a number of different ways, but because of that support it went exactly how it was planned." □

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