

Old Navy Leverages Supply Chain Management Technology to Remain Lean and Green

Facing tremendous challenges to reduce costs and increase market share, retailers today must ensure agile and rapid responses to demand signals to achieve success. Learn how Old Navy, a Gap Inc. division, is meeting those challenges.

by Lauren Bossers

Matt Salmonson is the senior vice president of Inventory Management at Old Navy, a division of Gap Inc. In this position since 2007, he is responsible for production, planning and allocation, brand management, and pricing. Since joining Gap Inc. in 1992, Salmonson has held roles across all three of the company's major brands.

In this interview, conducted by *Supply Chain Leader* Editor Lauren Bossers at Old Navy's headquarters in San Francisco in February, Salmonson discusses the state of supply chain management in the retail industry today, and the critical role of planning and preparation in Old Navy's implementation of i2 solutions.

You've had quite a tenure with Gap, Inc., with more than 16 years of service. Obviously many significant changes have occurred within the retail industry during that time, but what changes—from a supply chain perspective—stand out as the most noteworthy?

Ultimately, inventories have become increasingly leaner in the world in general. That dynamic has been punctuated by the economic blips that we've seen in the last 10 years, whether it was 2001-2002 or whether it was this year. By virtue of the fact that inventory levels have gotten a lot leaner, it's caused people to really have to think about different things. One is the classic, which you hear all the time: "Be more responsive in the supply chain." There is a drive to quickly respond to whatever data signals you receive, and there is no "one size fits all" approach. There has to be a number of different options for managing inventory and parameters for responding to both positive and negative signals.

If you go back 10 years, it was more about responding to positive signals in the market. Now, I think it's far more balanced between responding to positive signals and responding to negative signals, so that causes you to do things differently. Before, the thinking was, "Stage it so



that we can get our hands on it very quickly." Now, the approach is, "Do that with discretion, but also be prepared if you have to go the other way and ratchet it back." That creates a lot more dialogue with vendors, with whom we now have tighter connection and a lot more transparency—even if it's just by virtue of phone and e-mail—than we had a just a few years ago. If I were to project out 10 or 20 years from now, I would say that there will be an absolute transparency, and presumably it will be technology-based.

On the other side, you have consumers. Because inventories have gotten leaner, how you deploy your inventory becomes a lot more precious. And while we've always strived to be demand-based and match inventory with consumer demand, when inventory gets lean, every unit counts for more.

You mentioned 10 to 20 years from now, that you envision even more transparency in the supply chain. What other big supply chain trends do you see moving forward? What's going to have the biggest impact?

Cost has become king, and it's becoming increasingly important for us to negotiate the best prices for our products. We source our products from all over the world, and are always looking for new opportunities. As a company, the social aspect of what we do is incredibly important, and labor issues in many of these countries can be very challenging. When we go into new markets we do a lot of work to understand the social, political and economic conditions of those regions and our responsibility as a buyer in those places.

I know that Gap Inc. has long been at the forefront of social and environmental responsibility. And that brings its own challenges, because when you're manufacturing halfway around the world and you're involving casual workers at times, I'm sure it's hard to exert the level of control that you'd like to have. So what kind of impact does the level of conscientiousness that you strive to maintain have on your supply chain?

It is very difficult. But we have one of the more rigorous—perhaps the most rigorous—reviews of a vendor base of anyone in retail. We have a team of more than 80 people around the world that assess factory conditions, and we monitor both direct suppliers as well as their subcontractors before production can even be placed. Each of our suppliers must sign and abide by our code of vendor conduct. Other retailers are coming up the curve, and they've become more socially stringent, even in the last six months. When we think of social responsibility, it's not just making sure we select the right vendors and that they have the right conditions for the workers. We seek to actually improve the conditions by which people are employed around the world. That becomes more difficult in the current economy, because as we're trying to drive costs down so we can survive this downturn, so are the vendors. When they start doing that, it brings up other questions, other points of review. So we've increased the rigor by which we look at secondary relationships with our vendors, because we don't want to go backward in this process. We've been a leader in this respect. We do our best to live up to what we believe is important.

Environmental awareness is obviously an important issue for Gap. How do you stay as environmentally responsible as possible while maintaining economic viability and meeting consumer expectations?

The world is only just beginning to become green, and green is here to stay. We're looking closely at things like plastic hangers and plastic bags, for example. So we have a whole separate work stream looking at ways to address issues, such as plastic bags, in the supply chain, not only from an environmental standpoint, but to comply with government regulations that are coming down the pike. When you're a publicly held company, economics are very important, and in some cases, economic pressures are forcing us to become greener. For instance, there are some provinces in Canada that have begun to tax us for the amount of waste that we create. So that's going to force us to become more innovative further up in the supply chain. Governments are looking for ways to become increasingly green themselves, but they're also strapped, so things like recycle taxes are going to be something that we really have to think about.

One of the things I love about this company is that our stores put a tremendous amount of pressure on us to figure out how to manage things like recycling boxes and hangers and the amount of plastic around product when it arrives at the stores. They look at it both environmentally, and in terms of how it is a benefit or a detriment to the work that they do. The amount of courage that people have in this company to raise these issues keeps us, as individuals or as leaders, on the hook to address them.

Old Navy is a destination for low-cost clothing for the entire family. How do you compete with Target and Wal-Mart, who are also selling apparel to a similar demographic, when they are also getting foot traffic from people that are shopping for paper towels and dog food?

That's their competitive advantage, for sure. But we have got to offer brand experiences that transcend going into a store, loading up a basket with donuts, milk and orange juice and saying, "By the way, I'll throw a sweatshirt in there, too." For our portfolio of brands, there is an emotional connection. And part of the reason I've stayed here as long as I have is because I believe these brands are important. They're not just a storefront. Gap means something to people. The beauty and the burden of this business is when you tell somebody you work for Gap, they will tell you that they walked in the store and the khakis that we used to carry weren't there anymore. To me that is a constant reminder that people care about their experiences when they go into these stores. On the other hand, we don't carry soap, food products or electronics, and so how we compete has to be along a different and more emotional dimension than what Wal-Mart and Target will. It's the challenge. The retail landscape has changed over the last 20 years, driven by both of those guys. And it's a challenge that we take on every single day.

I was doing some shopping on gap.com recently, and I noticed that all of the Gap sites—Banana Republic, Gap, Old Navy, and Piperlime—have been integrated now, so that shoppers can fill one shopping bag and pay one shipping fee. What kind of opportunities and challenges does this present from a supply chain perspective?

The Gap brands operate very closely together in a variety of ways. We source products jointly, and we leverage the portfolio of brands strongly across the supply chain. It's a source of absolute efficiency for us, certainly from a cost standpoint. We have multiple channels in which we can either negotiate with vendors directly for multiple brands when we're making product or having product made, and we also can ship product together. We leverage our size in that way to stay efficient. Old Navy shares distribution centers with Gap and, to some degree, with Banana Republic. We want our direct channels to fulfill the relationship we have with the customer. We want them to be able to buy something. We want it to be easy. There's a lot more leverage to be had in that process online, but we're very proud of the web site. It's best-in-class and poised to do some amazing things.

During your presentation at i2 Planet last year, you talked a lot about the importance of getting the organization ready for a supply chain management implementation. How do you prepare a team and build the processes around the technology?

First, you have to have the vision to know where you want to be, and next, what the logical steps are to get there. When you're offering that vision to the organization's executives, you have to give them a real, pragmatic understanding of how you're going to accomplish your goals. You have to show them an example of what you think the processes are going to look like and what you think people are going to be doing. In the end, people might be inspired by the vision, but they think about the work. For me, I could be happy with putting a dot on a map and saying, "Oh, I can see clearly how we're going to get here." But for the other 100-plus people that are in the organization, that's not enough. You have to put a team together, and say, "If we want to get from point A to point B, this is how we think people will be doing their work. This is what we think is going to be important." You're probably going to be 75 or 80 percent right. When you put smart people in a room, they, generally speaking, are going to get you on the way.

How do you then start putting that into action?

To the extent that you can, you start pulling pieces out

of the process and say, "We're going to do this starting tomorrow," or "We're going to do this starting six months from now." Once you get rooted in a fairly tangible view of what a day looks like, you start systematically pulling things out of the plan and say, "Why can't we do this today?" And you just start doing them. We discovered, as we pulled pieces out, many of them were spot on, and by the time we actually got to the real change, people were experienced in the new process. There's nothing that gives an organization bandwidth and confidence like experience. And you don't want to start building experience day one; you want to build it on day minus 300. The other piece is, you're going to find out that some of the thinking that you had was 80 percent right, but 20 percent of it was wrong. You want to make the necessary improvements and adjustments before you get into the real change. Otherwise, it's going to create more chaos, and it's going to stretch the time between implementation and proficiency.

When all of your planning and preparation enables you to successfully shorten that time between implementation and proficiency, what are the positive results that you see within the organization?

The goal for me as a leader is to compress that time. I want the team to be as proficient as they can, as fast as they possibly can, for a few reasons. First, it keeps people confident, it keeps their psyches intact, it keeps them learning and growing much more quickly. And by the way, it delivers benefit to the business more quickly as well. I talk to people in my role in many different companies, and the first thing they say to me is, "What technology are you guys using?" or, "We need technology. What should we do?" My response is always, "Do you know what you want to do?" And I have yet to find somebody who's given me an answer to the question: "What is the business problem you're trying to solve?" For an end user, it's got to do three things. First, it has to solve a relevant business problem, and one that everyone can see and understand, like, "I'm having trouble putting my inventory in exactly the right places." Second, it has to look good, meaning the user interface has to be natural. Finally, it has to perform, and deliver on its promise in a timely way. And for me, it's about practice, practice, practice and practice in the business, as though you're already doing the work. Be open to making change.

Can you talk about a real-world example of an implementation experience with i2?

We've been very successful, certainly with the i2 Buying and Assortment Management [BAM] implementation. Implementations are never easy, but in this case,

people were ready to use the tool. In preparation, we actually took some of the BAM algorithms out of BAM and put them in into the Excel spreadsheets that we were running, so our team had experience in what the algorithms were telling them. When BAM was actually up and running, they already understood what the system was telling them.

Have you been able to leverage implementation best practices like this across other Gap Inc. brands?

Between the Old Navy implementation and the Gap implementation, we discovered new things. We have been able to help Gap, and as a result, they've implemented slightly differently than we have. Their implementation is starting to wrap up, and now we're going over to Banana Republic. But all along the process—and this is what I love about our portfolio of brands—we're able to help Gap out so they can implement more quickly, or change more rapidly. The speed by which we've been able to implement in the other brands has been unbelievable.

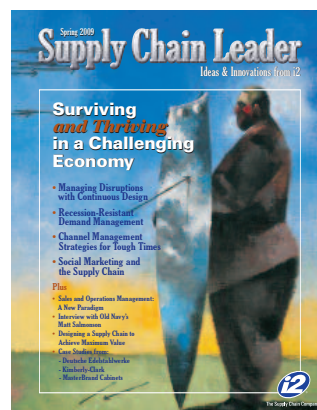
How has i2 helped you to accomplish your supply chain goals?

Number one, we've gotten much leaner in our supply chain, and not just through a sheer desire to be leaner. We've become a lot more prescriptive and precise in how we're making investments in our inventory. Number two, i2 solutions help us keep our assets much more fluid. And three, we've significantly improved our ability to deploy our assets in the right places, which is not easy to do in the very complex, volatile world of fashion retail. To be able to create any level of certainty or precision within that framework is difficult, but we've been able to overcome challenges, significantly improve processes and create substantial benefit.

When we started the i2 engagement three years ago, we didn't look at 2009 and say, "Boy, it's going to be a tough economic year." But now we're at the right level of maturity with the solution when we really need it. We chose i2 because we thought they would be a great partner who would give us the foundation of growth we were looking for. We knew that, on day one, we would actually start realizing the benefits that we were looking for, and we have not been disappointed at all.

Lauren Bossers is the editor of *Supply Chain Leader*. View **Matt Salmonson's** i2 Planet 2008 General Session presentation at www.i2.com/customers/retail.

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