

China is the New North Pole

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Christmas cheer started early this year for home-decor retailer Garden Ridge, which emerged from bankruptcy on May 12. The Houston-based, privately held retailer began its 2005 fiscal year with a gross margin increase of 2.2% and earnings growth of \$5.9 million in its first quarter ended April 30. For the six-month period ended April 2005, the retailer posted comps growth of 7.2%. Sales continue to perform well throughout the year to date, with comp-store comparisons tracking into low double-digit increases.



A key contributor to these successes was a decision to change the company's supply chain strategy. The 35-store Garden Ridge consolidated select international shipments to deliver direct to its stores, and combined its two domestic distribution centers (DCs) into a single location.

By closing its DC in North Carolina and processing all domestic shipments through one centralized DC in Dallas, Garden Ridge reduced its company-owned DC footprint from approximately 1.5 million sq. ft. to less than 700,000 sq. ft. Although this reduction yielded savings in overhead and operational efficiencies at the DC level, the driving objective behind consolidation of international shipments was to improve store-level efficiencies for receiving and setting seasonal merchandise.

"The biggest expense in our stores [relative to seasonal product] is when we set large items such as Christmas trees and continually have to add to that set each week," said Ron Swenson, director of logistics at Garden Ridge. "It costs us up to seven times more [in logistics and labor] to add to the set after the first shipment is placed."

For the 2004 holiday season, Garden Ridge tested a program for consolidating seasonal commodity imports at third-party distribution centers in Asia and shipping full containers directly to the stores. Garden Ridge describes its commodity products as huge-volume items that are pushed through the stores during peak seasons. For the holiday season, that definition includes products such as Christmas trees, boxed ornaments, lighted outdoor displays and giant inflatable snowmen, candy canes and seasonal characters.

Working through UPS Supply Chain Solutions (UPS-SCS), Garden Ridge's international shipments are consolidated into full container-loads that deliver floor-ready merchandise direct to stores. UPS-SCS operates more than 50 consolidation centers in China and plans to open another 10 in 2006.

Saving time and money: Before Garden Ridge began shipping full containers directly from China to its stores, seasonal imports were accumulated and held in the company's two domestic DCs. Orders were placed nine months ahead of the time product would be needed in stores, and shipped to the company's two DCs beginning in April, where it was stored until it was time to stock stores.

"The new strategy has allowed us to take two or three months of storage time out of our supply chain as well as cut 10 to 14 days from the supply chain for the time it took product to be processed and

shipped from our domestic DCs to stores," said Swenson. "Also, now our Dallas DC is utilized as it should be-for shipping the smaller items that need to be picked and shipped to stores."

Garden Ridge continues to place its holiday buys nine months in advance, but this is done to accommodate vendor production schedules rather than to build inventories at the retailer's DC. Swenson said it is easy to forecast accurate buys for holiday commodity items because the company has sold these products for years.

In addition to improved operational efficiencies, consolidating commodity items into container shipments has yielded substantial improvements in cash flow. "Shipping container-loads direct to stores impacts the overall cost of moving product from their place of origin to the stores. When we consolidate shipments through the UPS center in China, our sourcing cost-that is, the cost of transportation and handling-can be reduced by 12% to 15%," said Swenson.



Garden Ridge realizes even greater savings-as much as 21% to 25% in reduced sourcing costs-when shipments are factory-loaded onto ocean containers that deliver direct to stores, bypassing all distribution and consolidation centers. However, the majority of international shipments delivering direct to stores are managed by third-party consolidators such as UPS-SCS.

Last year, Garden Ridge selected about 50 commodity items to test in the direct-to-store program and, between the UPS-SCS consolidation center and vendor-direct shipments, delivered approximately 300 ocean containers to its stores. This year, the company expanded the program to include 175 items. It expects to deliver between eight and 12 full ocean containers to each store for this holiday season.

In 2006, the program will be rolled out to include two additional peak seasons. During the patio and garden season, each store should receive three to four full containers of import commodity items, and in the autumn floral season, stores will receive one to two full containers.

"For a consolidation program to be effective, it is critical that every SKU arrive in our DCs on time," said Steve McMichael, VP of supplier management for UPS-SCS. "In the case of Garden Ridge, we receive product for two to six weeks before we start to build ocean-container shipments. We know the required in-store date for merchandise early in the planning process, and it is our job to manage the inbound freight so that it arrives on time at the stores."

Imports selected by Garden Ridge for the consolidation program represent large purchasing buys that are scheduled to be in stores for a specific date. Often the products are non-conveyable items, such as Christmas trees. Because merchandise has to arrive floor-ready, vendor compliance is crucial to the success of the program. Garden Ridge audited 20% of the inbound containers participating in the 2004 pilot program and did not find a single error in any of the shipments. "UPS checks product for damages before it leaves China; if there are any damaged boxes or the product is marked incorrectly, the vendor has to correct the problems," said Swenson.

Receiving ocean containers at the stores is much easier than receiving deliveries from the company DC, which ships an average of one trailer-load per day per store. Trailers arriving from the Dallas DC typically have merchandise for multiple areas within the store, but the consolidated containers of seasonal imports are organized to be set within the same area inside the store.

"This program helps us be more competitive, because we are usually in-stock before any of our competitors and we can start selling Christmas trees before Labor Day," said Swenson. "I have been in stores when the ocean containers arrive and have seen customers buying product as soon as we set it on the floor. Now that is true cash flow."

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