

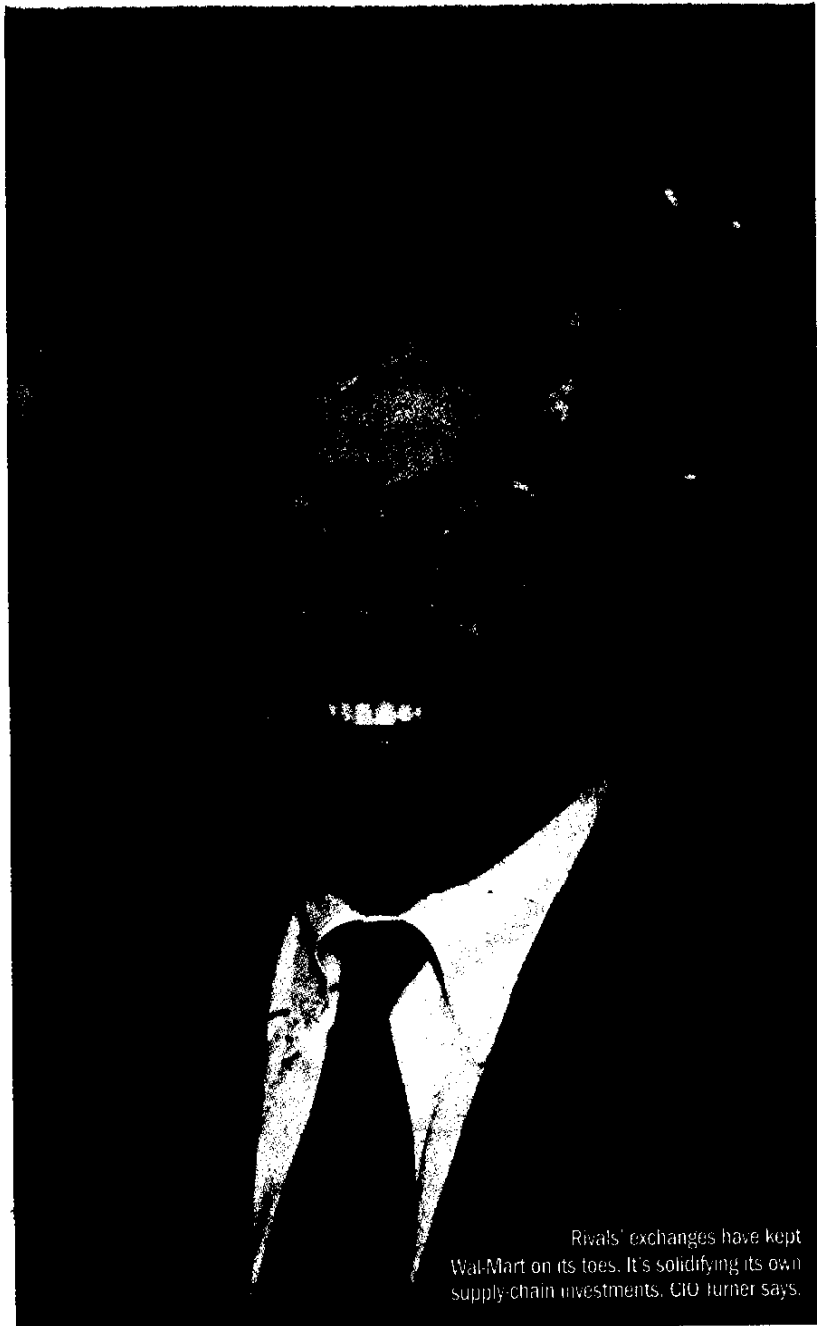
TOP OF THE WEEK SUPPLY

BY ALORIE GILBERT

Wal-Mart Stores Inc. isn't satisfied with its legendary supply-chain prowess. Next week, the company and its key suppliers will begin testing an online private trading hub that builds on the superbly efficient, sophisticated supply-chain technology that helped it become the world's largest retailer. Meanwhile, struggling Kmart Corp. is hoping to narrow the gap with its rival by embarking on a large IT project aimed at bolstering its ability to work efficiently with suppliers, keep shelves full, and lower costs—all critical in an industry known for razor-thin margins.

Wal-Mart, whose relentless pursuit of efficiency has been the key to its low prices, says the hub will let it consolidate its purchasing globally and bring suppliers online to compete for contracts—much like a public electronic marketplace. The Bentonville, Ark., retailer is building the Internet hub with a packaged application from a little-known startup, Atlas Commerce Inc.

The software will integrate with and extend Wal-Mart's existing supply-chain infrastructure, called SupplierLink, which is made up of its electronic data interchange networks and an extranet used by Wal-Mart buyers and 10,000 suppliers to e-cull information about sales and inventory levels in every store. The extranet is fed by a database that contains more than 100 terabytes of data.



Rivals' exchanges have kept Wal-Mart on its toes. It's solidifying its own supply-chain investments. CIO Turner says.

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Retail's Super S

Wal-Mart inks deal to roll out private trading hub; Kmar

Though the hub project is an extension of its highly automated supply chain, Wal-Mart views it as a strategic step. The retailer is counting on the trading hub to help it get better deals with existing suppliers through global contracts. It will also let Wal-Mart open up bids for contracts on new or different merchandise to all its suppliers—which it can't do with phone and fax negotiations. "It's a major issue for us to find suppliers to handle our volume worldwide," Wal-Mart CIO Kevin Turner says. "This will allow us to go broader and deeper and include more suppliers."

Wal-Mart, which finalized its contract with Atlas Commerce earlier this month, says it began internal tests of the forecasting-aggregation capabilities of Atlas' Metaprise software suite in July. Next week's pilot of the suite's

auctioning and contract-negotiation capabilities will involve five suppliers. Neither company would specify the value of the deal, but it's a multimillion-dollar contract. Wal-Mart isn't deploying the suite's order-management, purchasing, group buying, logistics, and forecast and inventory-replenishment features, which it already has in its existing infrastructure.

Wal-Mart has steered away from packaged applications in the past in favor of building custom software, so its decision to implement third-party tools from a young company is a surprise. But the retailer clearly views the

Wal-Mart views the trading hub as a very strategic project.

technology as critical: Atlas agreed to sign an exclusive deal with Wal-Mart that prohibits the software vendor from selling the same applications to the retailer's key rivals.

Wal-Mart views online marketplaces such as the WorldWide Retail Exchange (owned in part by Gap, J.C. Penney, Kmart, and Target) and GlobalNetXchange (owned by Sears, Roebuck and Co. and French retailer Carrefour SA) as direct rivals, and it wants to ensure the technology it uses continues to have a distinct market advantage.

In fact, Wal-Mart credits such exchanges with keeping it from getting complacent. "We owe the exchanges for helping us accelerate and solidify investments we made a long time ago," Turner says—but Wal-Mart doesn't want them to have the advan-



Siemens Chooses i2 For Ambitious E-Business Initiative

Retailers aren't the only ones souping up their E-business strategies. German electronic components and engineering company Siemens AG threw nearly \$1 billion on the table last week to finance its rebirth as a top-to-bottom E-business. i2 Technologies Inc. will provide the software to manage planning, design, sales, supply chain, procurement, fulfillment, and service for Siemens' manufacturing and sales operations in more than 190 countries.

Software from i2 will be integrated with Siemens' SAP enterprise resource planning software, its private exchange through Commerce One Inc., and future E-business apps. No division, employee, or business process will be untouched by the initiative, says Siemens president and CEO Heinrich von Pierer, who

unveiled the effort last week. Siemens' existing E-business operations—including i2-driven supply chains, trading exchanges, and Web sales sites run separately by various divisions—will be consolidated, and the company will add online customer-relationship management and knowledge-management systems. In three years, Siemens expects to do half its procurement over the Internet and increase total sales over the Net to more than half of its business.

The project may reveal the real cost for a large company to reengineer its business processes to this degree, says Gartner Group research director Carl Lenz. "Costs for a company to take full advantage of what E-business can offer are going to be 10 times what people originally thought." —STEVE KONICKI

Supply Chains

Kmart readies an overhaul of its planning systems

TOP OF THE WEEK SUPPLY CHAINS

tage of its processes. Turner says he likes to see rivals joining public marketplaces, because they "level the playing field, which is the opposite of gaining competitive advantage."

While Turner is quick to point out the defects of public exchanges, Wal-Mart's subsidiary and convenience-store distributor, McLane Co., co-founded RetailersMarketXchange, a marketplace for convenience-store and small-business retailers and mass merchandisers. Wal-Mart defends that move by pointing out that RetailersMarketXchange doesn't have the advantages of Wal-Mart's supply-chain infrastructure.

Wal-Mart's private trading hub has one thing in common with public online exchanges: They're both intended to help a retailer consolidate buying power and negotiate better deals with suppliers. While suppliers fear Internet hubs could squeeze their margins, Wal-Mart says the supply-chain savings the initiative should deliver will be derived from greater efficiencies on both sides. Turner insists suppliers will be able to do better planning with Wal-Mart's consolidated forecast data and gain opportunities by participating in online bidding on new lines of merchandise.

Suppliers are interested in getting better forecasting data from Wal-Mart, but some companies that sell brand-name items won't jump into online auctions anytime soon. VF Corp., a \$5.6 billion apparel manufacturer in Greensboro, N.C., that did about \$700 million of business last year with Wal-Mart, says auctions will be a better mecha-

nism for sourcing supplies for Wal-Mart's private-label merchandise. "Consumers will choose what they want, and if they want a specific brand, what is the auction for? Only one supplier delivers that brand," says Norm Marttila, E-business process executive at VF.

Most retailers don't have the infrastructure and purchasing power to build an exclusive network like Wal-Mart's. Generating \$165 billion in sales this fiscal year, Wal-Mart has more revenue than Kmart, J.C. Penney, and Sears combined. Kmart is particularly behind the curve in operational and technology infrastructure, resulting in poor inventory management and faltering customer service, the company says.

The problem shows: Kmart lost \$448 million in the quarter ended July 26, and last month its stock dropped to \$5.06, a 20-year low, amid skepticism it would be able to revive sales and profits.

"We've lost our way," Chuck Conaway, Kmart's recently appointed CEO, said at i2 Technologies Inc.'s Planet 2000 user conference in San Diego last week.

But Conaway hopes to change that.



BIG K: CEO Conaway says Kmart will invest \$2 billion in infrastructure.

In a \$2 billion overhaul of its operations infrastructure, the Troy, Mich., retailer said last week it had selected i2 to help rebuild its inventory-management and supply-chain planning systems. The companies estimate the project will take two years. That's because i2, which specializes in the high-tech and electronics industry, will have to build many of the retail-specific applications.

The deployment will be one of the broadest i2 has attempted, covering financial, demand and merchandise planning, sourcing, logistics, transportation, and reporting functions. It will let Kmart collaborate with its suppliers via the Internet and via the WorldWide Retail Exchange. Through these efforts, Kmart hopes to improve the rate at which customers find the products they're looking for to 98% from 82% today. The deployment will also link the i2 system to in-store technology such as point-of-sale systems. By automating many time-intensive operations that occupy store employees, Kmart aims to free up more people to assist customers and speed checkout times.

That all sounds good. But the project is reminiscent of lengthy, full-scale enterprise resource planning implementations, say some analysts who fear Kmart will get bogged down in technical hassles and miss its targets. "The risk is, can i2 deliver an end-to-end redesign?" says Gartner analyst Lora Cecere. "And at what cost?" **IW**

More on extranets: informationweek.com/808/walmart.htm

inshort

MICROSOFT CASE BACK TO COURT

Microsoft's lawsuit against the U.S. District Court in San Diego, which had ruled in favor of the company's former partner, is back in court. The court has ruled that the company's former partner, which had sued for a slip-and-fall injury, is not entitled to a jury trial. The court also ruled that the company's former partner is not entitled to a jury trial. The court also ruled that the company's former partner is not entitled to a jury trial.

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SEC QUILES BRING DATE TO SERVICE

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