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Heineken USA: Reengineering Distribution with HOPS

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EXECUTIVE SUMMARY

To facilitate the parent company's push to gain market share, Heineken USA needed to be more responsive to market demand fluctuation. Because of the long lead-time between order and delivery, they found that responding to marketplace changes in a timely fashion was becoming increasingly difficult. In the meantime, major competitors such as Anheuser Busch were responding to consumer demands for fresher products by providing freshness label dating. Heineken USA launched its new Internet based system called Heineken Operational Planning System (HOPS) to allow the parent company to produce the beer closer to the time when they need to deliver it, so the customer receives a fresher product. The new system enables Heineken USA to achieve 50% reduction in the lead-time from order to delivery and 10% increase in sales.

BACKGROUND[1]

The brewery that would later become Heineken N. V. was founded in 1592 in Amsterdam, The Netherlands. Gerard Adriaan Heineken produced the first beer under the Heineken brand name in 1863. The company grew steadily and in 1931 they embarked upon their first international operation, a joint venture with Malaysian Breweries Limited in Singapore. That year also saw the first Heineken exported to the United States. Heineken N. V. is currently the world's second largest brewer, trailing only U.S. based Anheuser-Busch. The company has ownership interests in more than 110 breweries and its product is available in over 170 countries worldwide. The European market, where Heineken is the leading brand, accounts for more than two-thirds of total sales. Heineken was the leading imported beer in the United States until 1998 when it lost that status to Grupo Modelo's Corona.

Heineken USA began operations in January 1995 as a subsidiary of Heineken N.V. In the past, Heineken was imported to the United States through private distributors under licensing agreement. When Heineken introduced its beer to the American market, there were no more than 30 import brands present. However, by the eighties, this number has increased to more than 300. Fierce competition from the imported segment contributed to the decline in Heineken sales. Heineken N. V. bought back the distribution rights and established a wholly owned subsidiary in White Plains, N.Y. With the establishment of the subsidiary, the parent company was planning a new market push in the United States (Roberts, 1999).

New York headquarters houses executive administration, finance, operations, sales and marketing personnel, and the data center. The data center is responsible for running the day-to-day operations of the U.S. business. Heineken USA has offices in Los Angeles and Atlanta as well. Since brand's European heritage is of essential importance when it comes to the positioning of the Heineken brand in the U.S, all U.S. Heineken beers are brewed and bottled in The Netherlands and shipped via sea to various demand points in the U.S. When distributors place orders, the shipment leaves the closest demand point and is quickly trucked to the distributor. Distributors then deliver the beer to its final destination at restaurants, bars and stores[2] (see **Exhibit 1** for Beer Supply Chain).

SETTING THE STAGE

In every supply chain, demand forecasting drives other supply chain decisions such as inventory, production scheduling, and material requirements. Demand is forecasted based on order history of the immediate customers in the supply chain. When downstream member places an order, the upstream member processes that information as a signal about future product demand. Thereby the upstream member readjusts its demand forecasts and place orders to its supplier (Lee et al., 1997a; 1997b). As planning time (i.e., time taken for initial forecast and forecast adjustment) lengthens, sales forecast that guide the order no longer reflects current market condition (Stalk, 1988). The consequence of not being able to reflect market condition could be either excessive inventory or poor customer service due to unavailable products. Collecting demand data in the most effective and economical method possible and sharing that information with supply chain partners are critical for supply chain management (Smith & Wintermyer, 2000).

Long lead-time from order to delivery prohibits companies from being flexible and adapting quickly to market demand fluctuation. Innovative companies in different industries improve their supply chain performance by reducing the lead-time from order to delivery. As businesses recognize the importance of the supply chain performance, the focus on business process reengineering is extended to the inter-business process reengineering (IBPR). Also called as business network redesign (Venkatraman, 1994), IBPR represents the redesign of the nature of exchange among supply chain partners through effective deployment of IT capabilities.

As recently as 1996, distributors and sales representatives from Heineken USA would meet together to plan out orders three months ahead of delivery. It was a daunting task for them to predict the factors that would affect the product sales such as weather, special promotions, and local demand fluctuations in advance. This time consuming effort took up to three days per month to accomplish. Once an order was agreed upon, the district sales managers would fax the orders to Heineken USA headquarters, which in turn would send them to the brewery in Netherlands. Lead-time from order to delivery averaged 10 to 12 weeks