

STORES.

Bare Escentuals' Supply Chain System Gets an Extreme Makeover

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While the concept of multi-channel retailing is no longer novel, few firms have taken it as far as Bare Escentuals. The producer and retailer of mineral-based cosmetics and skin-care products reaches customers through more than a half-dozen channels.

Bare Escentuals started as a boutique in 1976, and then began supplying independent spas and boutiques. About 10 years ago, management of the San Francisco-based company began to broadcast infomercials ranging in length from 30 seconds to 30 minutes, and to sell through television shopping channels. Wholesale channels were added four years ago, supplying stores such as Sephora, Ulta, Macy's and Nordstrom with its high-end beauty products.

More recently, the company has moved into the international market, and also has begun offering its products via its online store. "The breadth of the channels is a strength," says CIO Paul Wagner. "We have enough diversity to weather any storm."

The expanding range of channels, along with the company's skyrocketing growth (revenues increased six-fold, to \$395 million, between 2002 and 2006), was creating significant strains on Bare Escentuals' information systems, however. "The company was growing its top line at such an aggressive rate that the infrastructure was beginning to implode," Wagner says.

Two years ago, Bare Escentuals was moving tens of millions of units annually without the aid of a warehouse management system. "It was done on spreadsheets, via e-mail and voicemail, manually and through brute force," Wagner says. But this was becoming a concern as some clients, particularly larger retailers, were implementing stringent supply chain requirements. Many wanted visibility into their suppliers' inventory and shipping schedules.

"They want a relationship that's managed electronically, from procurement through the payment cycle," Wagner says. While Bare Escentuals was able to meet these requirements, doing so required manual efforts; employees would re-key purchase information to create EDI documents, for instance.

In addition, the company was struggling to maintain adequate in-stock levels and regularly meet demand. This challenge was particularly acute in channels where demand wasn't consistent on a weekly or monthly basis. Finally, sales associates were unable to provide the level of service many customers have come to expect from leading retailers, such as an automated store loyalty program.

To compensate for these IT shortcomings, employees spent an inordinate amount of time developing and applying work-arounds. That couldn't continue indefinitely, however: the company's growth would soon make work-arounds too unwieldy to be effective.

Going public

In addition, management was planning to take the company public (which it did late last year), and thus required the ability to provide investors with accurate, timely information. Equally important, public companies today need robust system controls.

Wagner and his team put a game plan in place in early 2006. They began by issuing requests for information and RFPs. From the responses, they gained an understanding of the range of information systems available. Wagner wasn't necessarily looking for a completely integrated solution; his goal was to find a "right-sized solution that would meet the company's needs today and into the future." To do that, he and his colleagues looked at a number of ERP solutions, as well as best-of-breed applications.

The focus was on demand-chain planning and supply chain execution. Bare Escentuals was trying to develop top-down inventory management and bottom-up inventory planning processes to provide better visibility into its supply chain, enable enhanced collaboration with its retail and other partners, and more accurately forecast procurement and production requirements.

The company generally works within a four-month manufacture-to-delivery lead time, and needed to ensure on-time product deliveries to its partners.

Managing product flow

Oracle's E-Business Suite met the company's needs, Wagner says. From the suite, Bare Escentuals has implemented the inventory, warehouse, order and financial management applications. These modules allow Wagner's team visibility into product demand. Employees can use this information to work more effectively with their suppliers through Oracle's EDI gateway.

Wagner says this has been key to managing the flow of products according to demand, and ensuring flexibility in deliveries, so that product flow more accurately matches consumption. It also enables the company to match the products available in each channel with the demand in that channel.

Bare Escentuals also has licensed Oracle's advance unit-pricing module. This enhances the order-management process by allowing employees to create more complex deals and promotions for customers.

In addition, once it ships goods, Bare Escentuals can interface electronically with its freight company to manage outbound product traffic. "Managing lead time by product is an important factor in ensuring we have the right product at the right time," Wagner says.

What's more, Oracle's products are built on open standards, says **Gladys Lau, Oracle's senior industry director for retail**. That allows companies like Bare Escentuals to more easily integrate information residing in another system into an Oracle application.

"This protects their investment" in these other systems, Lau says. "It allows companies to work with other applications through their core solution set" and to grow and add modules at their own pace.

Equally important in Bare Escentuals' decision to partner with Oracle was the company's experience in application and system implementations. "We knew we had really aggressive time lines," Wagner says. "We needed the right players and the right commitment from management."

Most companies embarking on this type of IT implementation would start with their financial systems; Bare Escentuals' "pain point" was its order and warehouse management systems (or lack thereof). "We needed to get the infrastructure in place, and then we backed into the financials," he says.

Bare Escentuals signed a contract with Oracle last July, and the order and warehouse management systems were up and running by November. Work then began on the financial system, and as of early April, Bare Escentuals was in the process of bringing up additional elements, such as the accounts payable module.

High fill rate

While Wagner and his colleagues have had a very busy year, the work has been worth it. He estimates that the company will recoup its investment in the Oracle system, which was in the low seven figures, in less than 12 months.

The return will come from several factors, including better in-stock rates, which will reduce the number of orders and sales that go unfilled. As of April, the company's fill rate for both external and internal customers was running higher than 99 percent, he says; while it is difficult to determine the precise fill rate prior to implementation, Wagner estimates that it was between 70 and 80 percent.

Equally important, by enhancing its visibility into its supply chain, the company is better able to meet regulations like Sarbanes-Oxley.

Bare Escentuals also has put in place the systems it needs to work effectively with its business partners. The company's ability to collaborate with customers to forecast demand, and then incorporate demand forecasts into its purchasing, and to keep goods flowing consistently with demand (which often is revised) "is absolutely paramount to our operation," Wagner says. "It is managing and continuing to improve this model that will keep us competitive in the marketplace."