

Santa's Supply Chain Keeps Pace, Despite Changes

Still Fat and Jolly, Santa Now Runs "Earth's Most Sophisticated Distributor."

By ADAM J. FEIN

SANTA CLAUS KNOWS who's been naughty and who's been nice – and he also knows his Earn-and-Turn ratio.

The media still portray Claus, founder and CEO of the Kringle Corporation, as a kindly older gentleman who runs a labor-intensive workshop and relies on an antiquated sled-based logistics system. But a visit to Kringle's worldwide headquarters in Bermuda reveals a sophisticated multinational corporation running a "last mile" supply chain that is the envy of many Fortune 500 CEOs.

"We have taken the concept of Christmas to a whole new level," brags Claus, whose vision and leadership continue to steer the company he founded. "We have maintained our dominant position in the Christmas gift delivery business because we changed with the times."

These boasts carry as much weight as the man himself, especially in light of Kringle's success at supply chain reengineering.

Wrapping Up The Market

Kringle, which today bills itself as "Earth's most sophisticated wholesaler," started as a one-man operation more than 1,000 years ago in East Barkshavastan, now part of Poland. Claus and his wife, Mrs. Claus, developed many elements of the core business model in this local market, such as vertical integration from manufac-

turing through local distribution and the use of elves for labor.

"Mrs. C and I started the toy-manufacturing workshop because we couldn't locate reliable suppliers," recalls Claus. "The elves worked for berries or pieces of bark, so we could keep costs low. I handled deliveries and the Mrs. managed operations."

Beginning in 1644, Claus began acquiring the local competitors that had sprung up, a strategy he termed a "wrap-up consolidation." When the dust settled 250 years later, Claus had acquired more than 500 Christmas-delivery operations and formed Kris Kringle & Co., which controlled 60 percent of the market at the time.

Success brought imitators, most notably Santer Kloss Inc., which operated a competing wrap-up consolidator. Founder Kloss died mysteriously in a still-unexplained reindeer hit-and-run accident in 1903. Claus purchased the business for only 10 percent of book value, giving him a worldwide monopoly. The renamed Kringle Corporation operated from a base in the North Pole, putting Claus and his company out of the reach of antitrust regulators in both America and Europe.

"Kringle was the second largest monopoly behind Standard Oil," notes Michael Ellis, professor of Christmas business history at the Wharton School of Business in Philadelphia. "Teddy Roosevelt tried and failed to bust up Claus' Christmas monopoly in both of his presidencies."

From Gum Drops to GMROI

Although images of an elf-filled workshop pervade its latest annual report, Kringle shed its

manufacturing operations more than 20 years ago.

"Vertical integration just didn't make sense anymore," recalls Claus. "Our costs were 150 percent of other manufacturers. Plus, we couldn't recruit elves who knew injection molding or chip manufacturing to the North Pole."

The workshop was spun-off in an Elf Buy Out (EBO) in 1981, leaving Kringle to focus on the core distribution and logistics operations. He promoted Jiminy Dinglemeister to the position of Chief Logistics Elf (CLE) and raised \$600 million from private equity funds and wealthy friends to rebuild his logistics network.

The Tooth Fairy, who has amassed a personal fortune estimated to be more than \$24 billion in quarters, was one of the early investors and now serves as chairman of the board.

"San brought a vision for re-engineering the traditional Christmas toy supply chain using technology. It was a no-brainer. I mean, who else has the experience?"

The infusion of capital changed the business overnight. Santa's sled, which still contained the original 1644 chassis, was retired in favor of an all-new logistics network linked together by information technology. Kringle built distribution centers on all seven continents around the world. And, a new culture of financial responsibility spread through the organization.

"We are in the business of running a business," says chief financial elf Artemis Winkiebanner. "We went from gumdrops to GMROI," referring to the popular inventory profitability metric Gross Margin Return on Investment.

(continued)

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SLEDding To Success

Kringle operates a pull supply chain triggered by children's orders, or "Letters to Santa." The Internet, which some feared would disintermediate Santa, is proving to be just another way in which children can place orders beyond traditional means such as sitting on the lap of a Kringle Uniformed Customer Service Technician. Around the company, these red-garbed workers are referred to as KRUSTies.

"I just point and click," notes 9-year-old Patrick Dancer of Glenco, Ill., who sent half of his wish list on the Web. "I just hope Santa thinks I'm nice enough to bring me the *Warehouse Optimization: Ultimate Logistics* game for my new Xbox 360!"

Young Patrick does not realize the work behind the scenes. Dancer's order is relayed via XML to a central relational database employing Kringle's proprietary Naughty-Nice enterprise technology platform. The UNIX-based system runs on a network of IBM AS/400 servers at a secure facility in the Sahara desert.

Transportation, warehousing, logistics are handled by a network of company-owned regional distribution centers throughout the world. The company fulfills using more than 4,300 vehicles, referred to as Santa Logistical Elf Delivery Service (SLEDS).

Kringle uses channel commerce management software for real-time analyses of these data to evaluate order flow, balance inventory levels, prevent leakages into the secondary market, manage service fill rates, and compensate local distribution centers for

accurate and complete data reporting.

Tiny Tim Collins, author of the best-selling management book *Naught to Nice: Why Some Princes Make the Leap...and Others Don't*, believes Santa's management style has been critical for success.

"Kringle is a true Level 5.8 Leader because he exhibits a paradoxical blend of personal girth and professional fiction."

The company's "no returns" policy translates into further supply chain efficiencies by avoiding reverse logistics costs. This leaves traditional retailers holding the bag for Kringle after the holidays.

"We hate the guy," said Geoffrey Giraffe, a spokesanimal for Toys R Us.

Kringle's world-class operations have been a training ground for many leading supply chain executives and academics. Five of the eight management committee members at Accenture spent time as elves, as did the entire faculty from Texas A&M's Industrial Distribution Program. Even Michael Dell was an elf before founding his eponymous computer company.

"Mike was a troublemaker," recalls Dinglemeister. "He always questioned why we slid down a chimney. He wanted to shut down North Pole operations and dropship from Southeast Asia as 'Direct from Claus'."

Ironically, Kringle plans to test this approach in Jacksonville, Fla.; Houston; and Philadelphia using its new Direct Tree Delivery (DTD) service.

Looking Forward

Claus sees significant opportunity to leverage his company's core competencies into new markets.

"Let's face it – there are billions of non-Christians who don't celebrate Christmas. We see great untapped growth opportunities by developing new service platforms and brands for other religions," said Claus.

Critics point out that previous diversification efforts have been unsuccessful, such as Kringle's Hanukkah Joe division, shut down in 1995 after 30 years and more than \$185 million of losses.

At a shareholder's meeting last year, Claus was reluctantly forced to admit: "We thought Jewish children would embrace a 'Jewish Santa,' but they had other priorities."

Translation: People care more about their own heritage and traditions than about helping Kringle meet quarterly earnings targets. Nevertheless, Kringle has been able to generate substantial revenues from the Jewish market because he owns the publishing rights to all three versions of Adam Sandler's "Hannukah Song."

Would he ever sell out?

"This is what I was born to do," states Claus. Last year, a rumored buyout by Microsoft floundered when Claus referred to the Windows operating system as a "virus." Commenting at the time, Microsoft chairman Bill Gates referred to Claus as a "brilliant monopolist, er, I mean, business-myth."

Nevertheless, Kringle's continued success seems assured as long as children embrace Santa Claus.

"I still believe in Santa's business model," said Patrick Dancer.

Millions of other kids around the world agree. ■



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