

SCE Helps a Health Products Company Reduce Supply Chain Costs While Improving Customer Responsiveness

The company was founded in the 1890s as a family-owned and -operated health product supplier. The company since has evolved into an international health care product company, with customers across the United States and around the world.

The Business Challenge

The company is very familiar with the benefits of outsourcing. In fact, throughout its more than 100-year history, the company has steadily shed activities outside of its core competencies, ultimately building a lean operation dedicated to serving its chosen markets as efficiently as possible. The company has established outsourcing arrangements for many business functions, and thus has been able to focus its attention and resources on core areas such as leadership of the business, operations, sales, and quality control.

The company also had outsourced logistics and freight to a third-party logistics provider (3PL). Yet management believed it could achieve even greater efficiency and productivity in that important area of the business. To be sure, given the relative complexity of the business—which included the use of multiple contract manufacturers to supply products intended for distributors and retailers in vastly different markets—attaining top-notch logistics capabilities was key to long-term growth and success. In support of this goal, the company approached Supply Chain Edge (SCE) for help.

One of the key reasons the company chose to work with SCE on this important initiative was SCE's proprietary Supply Chain Alignment and Assessment process, which would help the company rapidly uncover tangible opportunities to improve logistics. This assessment is powered by a simple yet effective Web-based data collection tool that enables a company to compile information gathered from employees, suppliers, customers, and other key stakeholders on the importance

and performance of more than 30 individual supply chain competencies, including those related to logistics. This assessment would help the company determine how well its 3PL provider was performing and where there were opportunities to improve that performance.

Another factor in the company's decision to hire SCE was SCE's willingness to participate in a gain-share arrangement. By agreeing to base its compensation on the business benefits the company generated through the project, SCE demonstrated not only its commitment to the initiative, but also its confidence that it could help the company achieve its goals.

How Supply Chain Edge Helped

With the high-level plan and performance-based agreement in place, the company and SCE moved forward together to implement the supply chain assessment. Overall, the assessment showed that while the company already had achieved significant value across its supply chain, its 3PL was, in fact, falling short. For example, in customer responsiveness and logistics management, the company's customers only gave the company a rating of 5.0 and 5.1 respectively, equal to "somewhat effective." SCE's in-person visits to the 3PL's facilities supported this appraisal, revealing several instances in which costs and operations could have been improved significantly.

The outcome of the assessment was clear: the company could improve its cost structure and customer service if it found a new 3PL that could deliver a higher level of performance and value in transportation, warehousing and fulfillment. The chosen vendor would need to have

strict quality control in place, as well as multi-client campuses that would allow it to reduce unit costs while delivering excellent service. And because the company has limited IT capabilities, the new 3PL would have to demonstrate consistent investments in technology that benefitted its clients' operations. Finally, in a world of shrinking transportation capacity and rising fuel costs, the 3PL would have to be able to provide low and predictable transportation rates for the company.

With this clear and compelling goal in view, SCE and the company worked together to create and send a detailed request for proposal (RFP) to multiple providers with the potential to meet the company's criteria. As these vendors submitted their proposals, SCE helped the company carefully analyze them against the requirements established.

Ultimately, the joint SCE-company project team selected a 3PL with a world-class, multi-client facility rich in economies of scale and best practices. The provider also had invested in cutting-edge warehouse management and reporting systems that would give the company continuous, real-time visibility into order status, performance levels and productivity. The chosen provider had impressive scale as well: Spending \$350 million on transportation services each year, the 3PL would provide the company with much stronger buying power than it had enjoyed previously, as well as ongoing protection against surges in transportation costs.

Having helped the company select this best-in-class vendor, SCE turned its attention to the transition which, coincidentally, was on track to occur during one of the company's busiest times of year. Thus, it was critical for the company to make the switch quickly and seamlessly, and with no disruption to the business.

SCE provided hands-on project management for the full scope of the transition, with oversight of all related distribution, order management, warehousing, inventory management, cycle counting, transportation, IT, and human resources processes. The SCE team used advanced project monitoring tools and techniques to keep the transition and its many moving parts on

track, and proactively addressed any challenges as they arose through frequent meetings focused on rapid issue resolution. For instance, during the peak of the transition, SCE managed the allocation of inventory between the incumbent 3PL's facilities and those of the new provider, thus ensuring customer orders would be fulfilled with minimal disruption and expensive re-shipments would be avoided.

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SCE also worked to uncover and pursue additional improvement opportunities as the initiative progressed, while tracking and reporting savings as they were achieved. In fact, one of the most critical aspects of the transition was the establishment of key performance indicators (KPIs) against which the company's new logistics capabilities could be measured and continuously improved. SCE and company representatives jointly formulated KPIs pertaining to operations (for example, order cycle times and accuracy), logistics costs, and customer service.

With SCE's help, the entire process—from assessment through the transition to the new 3PL—was completed successfully in just six months, with no interruptions to customer orders. Several factors contributed to this successful outcome, including the deep, hands-on supply chain experience of the SCE team, which was able to “hit the ground running” and quickly find concrete improvement opportunities—and, more importantly, attain them. This hands-on approach also smoothed the transition from one 3PL to another, as SCE's consultants worked one-on-one with both the incumbent and incoming providers, proactively addressing any hurdles. Likewise, SCE's approach to this project has featured plenty of communication with the company's team members, keeping them fully apprised of the status of the program and the fulfillment of its business case.

Altogether, SCE has helped the company fulfill its overarching objective: Put logistics in the capable hands of a market-leading 3PL, thereby driving ongoing cost savings and allowing the company to focus on its core strengths, all while laying a foundation for long-term success.

Results and Benefits

By teaming up with SCE, the company now is saving approximately 6 percent each year on its logistics costs—a major benefit, especially during challenging times in the transportation industry. The bulk of these savings are being derived from increased labor productivity, lower transportation costs resulting from better mode planning, and greater efficiency in warehousing, fulfillment, inventory put-away, cycle counting, physical inventories, shipment preparation and documentation.

While these savings are noteworthy, the company's deeper and more sophisticated logistics capabilities represent more significant gains from the project. With its new 3PL, the company has gained access to world-class distribution, warehousing, and customer service capabilities, not to mention more current supply chain technology and more extensive infrastructure. Together, these new, scalable assets and capabilities can help support differentiated customer service and robust growth for years to come.

About Supply Chain Edge

Supply Chain Edge is a team of seasoned supply chain specialists who are highly skilled in identifying, quantifying, and capitalizing on opportunities that drive performance improvements in key areas such as business growth, earnings per share, return on capital, margins, cash-to-cash cycle times, and customer service.

Supply Chain Edge is unique in two important ways: Our extensive experience in numerous supply chain initiatives with dozens of companies enables us to bring best practices used by other enterprises to every project while working collaboratively with a client's existing internal talent. And, we don't simply advise clients what they should do, but instead, help them execute more effectively and efficiently to realize tangible, quantifiable financial gain.



Maximize Your Profits and Increase Your Competitive Edge. Supply Chain Edge is a team of experienced supply chain advisors. SCE delivers improvements to key business metrics such as business growth, earnings per share, margins, return on capital, cash-to-cash cycle times, and expanded margins and profits to those clients we serve.