SUPPLY CHAIN EDGE

Case Study

Supply Chain Edge Helps Hayward Industries Adopt a More Strategic Approach to Transportation Management

Headquartered in Elizabeth, New Jersey, Hayward Industries is the largest supplier of residential swimming pool equipment in the United States. The company's system of advanced pool equipment helps pool owners address myriad challenges, including safety, energy efficiency and maintenance time and costs. The company's diverse product line includes pumps, filters, heaters, heat pumps, automatic pool cleaners, controls, colored lighting, valves, vacuum release systems, drain covers and other general pool products for residential and commercial applications. The growing company has a worldwide footprint that includes eight manufacturing facilities in North America, Asia and Europe.

The Business Challenge

With widely dispersed operations, Hayward has—literally—many moving parts to manage across its global supply chain. And, as is the case with other organizations of its type, this geographic dispersion has resulted in substantial complexity and numerous opportunities for redundancy and inefficiency to creep into the system. In fact, according to Don Smith, Hayward's vice president of operations, "We experienced sub-optimization, if you will, of our logistics and traffic," he said. "Each location managed some sort of the traffic and logistics operations, and we had numerous people keeping track of our expenditures, but no one with a strategic vision and an understanding of what a world-class process looks like in those operations."

Smith was troubled by the fact that although Hayward is a strong proponent of lean manufacturing practices and the use of metrics to drive management and accountability of key aspects of manufacturing, the company lacked a high level of management, insight and transparency in the logistics and traffic area. In fact, no one at Hayward could state with certainty how much the company actually spent on transportation in any given year. Smith determined the quickest way to remedy the situation was to bring in outside help—in this case, in the form of consultants at Supply Chain Edge. Smith indicated Supply Chain Edge had the expertise necessary to help Hayward get a better handle on where it was spending its transportation dollars, where it could save money, and what changes to the company's processes and practices were necessary to capture those cost savings both immediately and on an ongoing basis.

How Supply Chain Edge Helped

Supply Chain Edge began its work by conducting an in-depth analysis of Hayward's existing transportation practices. "They basically came in and gave us a physical," said Smith. "We wanted to understand where we were healthy and where we were ill. We wanted to check our practices and performance based on like companies in all industries. And one of the key parts of our business is distribution, and I didn't want to be best at distribution in the swimming pool industry. I wanted to be among the best in industries, period."

To help Smith gain the insight he sought, Supply Chain Edge conducted an extensive benchmarking of all modes of transportation at Hayward against what the firm considered world-class performance across all industries. Supply Chain Edge also compared Hayward's methods, management style, acumen and contracts for shipping and traffic against those of leading companies. At the end of the assessment, Supply Chain Edge was able to identify where Hayward was performing well and where it had immediate opportunities for improvement.

A number of such opportunities stood out. Supply Chain Edge found that because Hayward's various facilities were largely autonomous, the company was not fully capitalizing on the leverage an enterprise of its size could and should have with its carriers and other suppliers and service providers. Facilities struck their own agreements with chosen carriers, resulting in a stable of providers that was much too large to gain economies of scale with any one or handful of carriers.

Supply Chain Edge further discovered the company was not tightly managing various aspects of the contracts it had with its carriers, which led to Hayward's paying higher shipping rates and other charges than it should relative to comparable companies. As one example, the benchmarking exercise revealed the fuel surcharges Hayward was paying carriers was some 30 percent higher than what similar organizations were paying.

Other practices were adding costs to Hayward's supply chain as well. For instance, certain shipping procedures the company employed resulted in a failure to "cube out" the company's trucks as efficiently as they could be, resulting in the sub-optimal use of those assets. Additionally, Hayward was not capitalizing as much as it could on electronic billing and shipment tracking with customers, which meant the company spent unnecessary time invoicing customers and answering customer queries about the status of their orders.

Perhaps the most significant shortcoming the assessment identified involved the lack of a central repository for collecting and analyzing transportation spend data. At the time, Hayward was using three different freight payment services to handle the bulk of the company's transportation invoices. The payment services vendors published periodic reports detailing how much they spent on various carriers on behalf of Hayward. However, because no one was officially in charge of transportation at Hayward, and no technology tool existed that would enable Hayward to analyze this data, the reports generally went unread. As a result, no one in the company knew how much Hayward actually was spending on transportation—which, of course, made it difficult to identify areas in which the company could improve its performance.

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By building a database of all transportation spend collected from the three freight payment services Hayward used, Supply Chain Edge was able to knit together key data on payments for transportation services and calculate an estimate of what Hayward spent annually on inbound and outbound freight. The figure: approximately $30 million. Supply Chain Edge further determined that by addressing the various process and practice shortcomings the assessment identified, Hayward could save an estimated $2 million annually on transportation alone—savings that would drop straight to the company's bottom line. Impressed with the results of the assessment and Supply Chain Edge's recommendations, Hayward decided to give Supply Chain Edge the responsibility for managing and operating the company's entire transportation function.

"Supply Chain Edge basically said, 'Turn over this function to us. We'll make it healthy, and then we'll teach you how to keep it healthy,'" recalled Smith. "I turned the keys over to them, and it was to their credit that I had confidence to do that."

To capture the savings it identified, Supply Chain Edge embarked on two key initiatives: carriers and practices.

Consolidating Carriers

The Supply Chain Edge team consolidated the number of, and renegotiated more favorable rates with, the carriers Hayward used. "We were surprised to find out we had employed in our domestic operation over 100 different shippers and brokers for our shipment modes in the previous 12 months before the assessment," said Smith. "And we used over 240 different vendors for the two-year period prior to the study. To look at the volume that we were spreading across all of these vendors, it was clear we were diluting our ability to have any economies of scale."

Working with Hayward's internal personnel, Supply Chain Edge developed and issued a request for proposal to all the incumbent carriers. A critical aspect of this effort was establishing an optimal shipping rate for Hayward based on the entirety of their transportation business. This rate gave carriers a common baseline from which to negotiate and enabled Hayward to more easily compare each carrier's proposals. For instance, prior to this

effort, a carrier Hayward was using to handle shipping from its California facility was giving Hayward an 83 percent discount—which, on the surface, seemed like a pretty good deal. However, upon closer inspection, Supply Chain Edge discovered that while that carrier was offering a substantial discount, its base rate was 60 percent higher than the base rate of another carrier a different Hayward facility was using. The new common base rate eliminated such discrepancies and made it difficult for a carrier to obscure its true price.

Based on the criteria set by Hayward and their own experience in past consolidation efforts, the Supply Chain Edge team ultimately selected a dozen carriers to handle all of Hayward's transportation business. This gave Hayward much more leverage in subsequent rate negotiation. A simple example: A carrier making a 4 percent margin on $1 million of business will obviously generate far greater revenues than one making an 8 percent or 12 percent margin on $100,000. Thus, by committing more business to a smaller pool of carriers, Hayward was able to lock in much more favorable terms.

As part of its carrier consolidation work, Supply Chain Edge also worked to steer more of Hayward's business to carriers with lower fuel surcharges. This was critical given that, at the time of the project, fuel prices were skyrocketing and no one knew where they eventually would top out. For instance, one carrier Hayward used added a fixed 10 percent fuel surcharge to its rates, regardless of how much business it did with a customer. Yet Hayward only spent approximately $100,000 a year with this carrier while giving business to other carriers with substantially higher fuel surcharges. By redirecting much more business to the former carrier, Supply Chain Edge helped mute the impact of rising oil prices on Hayward's business.

Creating More Efficient Practices

In addition to addressing Hayward's carriers, Supply Chain Edge revamped a number of internal practices to improve efficiency.

One such practice involved the procurement department and how it managed the inbound shipment of materials. In initial interviews with Hayward's procurement professionals, Supply Chain Edge discovered these individuals rarely if ever considered the cost of shipping goods when making purchases—instead, allowing the vendor to choose the "best way" for shipment. And in some cases, the cost of transporting materials was actually buried in the price of the products, making it impossible to know how much transportation truly cost. Supply Chain Edge worked closely with procurement to ensure that procurement's professionals consistently specify one of Hayward's preferred carriers for all inbound shipments instead of leaving the decision in vendors' hands.

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Another practice concerned a setting in Hayward's shipping system that was unknowingly costing the company hundreds of thousands of dollars a year. Anytime a person wanted to ship an item via the company's preferred parcel service, the system automatically defaulted to the most urgent delivery timeline—in this case, priority overnight—regardless of the intent of the shipper. This meant Hayward was paying 10 or 12 times what it should have been paying on deliveries that were not urgent. Once this was discovered, Hayward changed the system to default to the longest possible delivery time via ground shipment.

A third area in which significant opportunities for improvement were found dealt with Hayward's relationship with its freight payment services. As mentioned earlier, although these vendors issued periodic reports to Hayward regarding its transportation expenditures, no one at Hayward even read, much less scrutinized, the reports. Making matters worse, none of the payment services vendors—including one that had been servicing Hayward for 20 years—had been auditing the freight bills they were paying on behalf of Hayward. They simply paid the invoices as they were received and billed Hayward for the corresponding amount. Now, with the consolidated pool of carriers in place, Hayward is auditing all invoices to ensure they are based on the new rates. It's a time-consuming process, but well worth the effort to avoid being overcharged.

Results and Benefits

Today, Supply Chain Edge has key professionals "on the ground" at Hayward, ensuring Hayward gets the biggest bang for its transportation spend—a far different situation from before the project, when the company had no one accountable for managing transportation on a full-time basis.

In recalling the work Supply Chain Edge has done with Hayward, Don Smith is pleased with the impact the effort has had on the company to date. One of the most visible impacts is financial. After just four months, Hayward saw nearly $1 million shaved off its transportation spend and, overall, anticipates saving a total of between $1.5 million and $2 million annually. The bulk of these savings come from consolidating the company's carrier pool and having carriers work from a common rate base. The remainder were generated from the changes in practices mentioned earlier. One simple example: By closely auditing carriers' invoices, Supply Chain Edge found approximately $50,000 in overpayments in the few months after the new carrier rates took effect—overpayments that previously would not have been identified.

Beyond generating substantial cost savings, Supply Chain Edge has had a higher-level strategic impact on Hayward's business, says Smith. The consolidated database Supply Chain Edge built and maintains enables Hayward to look across the entire company and get an accurate picture of what the enterprise is spending in total on freight at any given time. Such intelligence is critical to running a modern company in today's challenging economy. "The knowledge we have now—about what freight costs us, where our leverage points are, and where our highest-impact expenses are—is helping us make important decisions on customer quotations, acquisitions and customer service," said Smith.

Furthermore, the changes in practices identified and implemented have made Hayward generally more efficient and have given the company much more visibility into the overall performance of its transportation function. And, according to Smith, Supply Chain Edge is not simply "doing its job" but, rather, is educating Hayward's employees on leading-edge techniques in transportation management—thus building the company's capabilities and in many ways reshaping the way the enterprise views the transportation function.

"The best we could have done without their help is to continue managing transportation in a task-oriented way," said Smith. "Supply Chain Edge helped us regain a strategic understanding of transportation—that it's not an expense, but a functioning part of our business that could contribute in various ways. In my mind, that's the heart of their role: to leave us with the ability to manage strategically instead of tactically."

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.

SUPPLY CHAIN EDGE
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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.