Leiner Health Products is the largest private-label manufacturer of vitamins, minerals and nutritional supplements, and a leading manufacturer of private label over-the-counter (OTC) pharmaceuticals in the United States. The company produces more than 27 billion pills a year, and markets only to the nation's top retailers.

The retail/drug store sector, which includes such giants as Wal-Mart, CVS, Costco and Safeway, is undergoing massive consolidation. Competition is cutthroat; cost pressures are monumental.

"Retailer demands are higher in terms of improved service levels and downward cost pressure," says Gale Bensussen, president of Leiner Health Products. "Retailers are reducing their warehouse inventories and compressing lead times from as little as two weeks on standard products and 10 weeks on major promotions," he says. "We supply as many as 200 different SKUs to a given retailer. Each SKU may have as many as 50 different ingredients. When you explode that back up the supply chain, you have to be able to manage incredible complexity."

"We are a marketing-oriented manufacturing company," Bensussen explains. "So we start with customer needs. What do they want, then how are we going to get it to them? We partner with the retailers to understand their unique needs and the tools that the customer has available to us that can be integrated into our inventory management systems.

"Basically," he says, "our ability to plan is directly related to the quality, availability, and information we receive from retailers and how well we use it. With accurate, timely, well-formatted information, we can work the supply chain to increase retail turnover and reduce out of stocks. Connection to the retailers is fundamental."

There are two types of retailers, in Bensussen's estimation: "Those that have online VMI (vendor managed inventory) capabilities where we can track and monitor sales trends by SKU and respond accordingly, and those that do not have the data and cannot plan efficiently.

The second group is losing the market-share battle because:

- Inventories are out of balance.
- Inventory does not turn as fast as more sophisticated competitors.
- Promotions cannot be executed efficiently.
- Lack of historical data prevents identification of consumer trends.

"Sophisticated retailers, on the other hand, know precisely the lift on various types of promotions," he says. "They plan ahead and provide adequate leadtime. This allows time to build stock at the lowest possible cost, making promotions more efficient."

Managing the Supply Line

To manage retailer needs, company managers meet weekly to review and/or revise forecasts to ensure 97-percent-plus service levels.

In 2001, Leiner launched a reengineering effort with the help of consulting firm REM Associates of Princeton, NJ. As a result, inventory turns increased from 2.5 to four.

"At the same time, our service levels are 100 percent for many customers -- up from about 70 percent two years ago. Average service levels are 97 percent. We supply more than 4,000 SKUs. That's big-time complexity management," Bensussen says.

"The result of the reengineering effort is margin improvement, which allows us to keep our retailers competitive. And the substantial reduction in inventories has strengthened our balance sheet," he notes.

Going through a major reengineering project was, as Bensussen puts it, "an epiphany."

"We had been growing in double digits every year," the president recalls. "That puts the pressure on to keep increasing market share.

The natural focus is on more products, more sales, distribution gains, and push promotions. The danger is not paying enough attention to developing operating systems to support growth. We needed to step back and understand the quality of the business. That was our epiphany."

"Connection to the retailers is fundamental," says Gale Bensussen, president of Leiner Health Products. "With accuract, timely, well-formatted information, we can work the supply chain to increase retail turnover and reduce out of stocks."

Leiner set goals to:

Be the highest quality, lowest cost supplier to the mass market.

- Generate increasing cash flow from internal operations.
- Focus on the customers and the products where it makes the most profit.

With REM's help, Leiner analyzed its customer portfolio to rank its customers.

"We discovered that our top 15 customers represent 85 percent of our profit. Then we looked at our products, and found that 3,500 of our 7,000 SKUs were generating most of the profit. We also found that the bottom-tier SKUs were profit negative.

"So we went through the painful process of discontinuing approximately 65 customers and 3,500 SKUs. These actions provided a basis for improved efficiency of Leiner's manufacturing facilities," Bensussen says.

"Our run times are much longer, down time is less, SKUs are fewer, raw material purchases are large, but we eliminated a lot of commodities. We know what we have to produce, and are not lost in trying to get thousands of unprofitable SKUs out the door," he says.

"We're seeing greater efficiencies, which put us in a more competitive cost position. We can now deliver vastly superior customer service. In fact," he says, "the personality of the company has changed, and we are having much more fun."