

Business Logistics Process Re-engineering

Keys to Increased Business Profitability

*A Profile of the Logistics Re-engineering
Process, Methodology, and Results*



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Business Logistics Re-engineering Process

Our agenda for today's session includes

- Introduction – REM Associates, Inc.
- Business logistics perspective
- The re-engineering process
- A sample client business profile
- Analyzing business logistics – class participation
 - Current state
 - Key issues
 - Findings and opportunities
 - “What to do about it”
 - Management reporting
 - Implementation
- Summary and key take-aways.

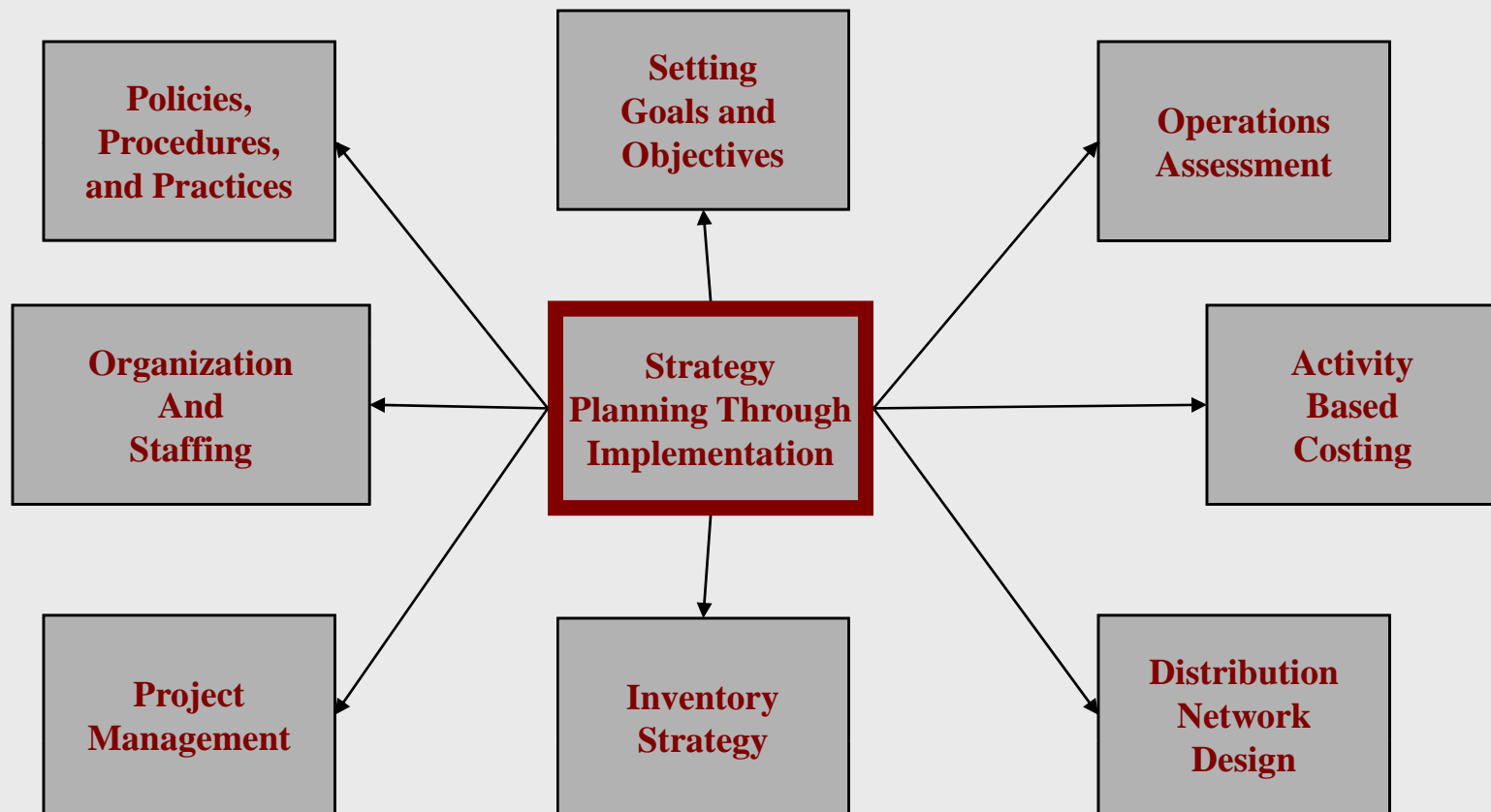
Profile of REM Associates

REM Associates, started in 1984, is now in its twenty-fourth year serving business clients

- Advice and counsel in “*Business Logistics*”
- Consumer and industrial companies as well as governmental organizations
- Strategic, tactical, and contingency planning
- Operations evaluations directed at improvements:
 - Profit improvement
 - Facility operations analysis and planning
 - Cost reduction and productivity improvement
 - ABC inventory costing and evaluation
 - Functional outsourcing
 - Customer service
 - Organization structure and performance.

The REM Associates Network

REM Associates provides virtually turn-key management



Functional Areas of Business Logistics

Specifically, business logistics and related functions, include

Business Logistics Management

Sourcing and Purchasing

Forecasting and Sales Planning

Production and Inventory Management

Warehousing & Distribution Operations

Facilities and Network Design

Transportation Operations and Management

Customer Service and Order Processing and Related Systems

Business Logistics Perspective

Today's business management faces increasingly complex challenges from a variety of sources, including

- Business technology issues
- Political, regulatory, and external controls
- Sociological and cultural change
- Investment community emphasis on “real” earnings and growth.

In addition, increasing business pressures require management focus, decision making, and action plans directed at

- Intensified product, service, and market competition
- Innovative pricing strategies
- A constantly changing government regulatory environment
- Greater emphasis on operational and working capital cost reduction

Increasing the need for managing a company with in-depth understanding, improved knowledge, and skills not previously required in business management.

Business Logistics Perspective

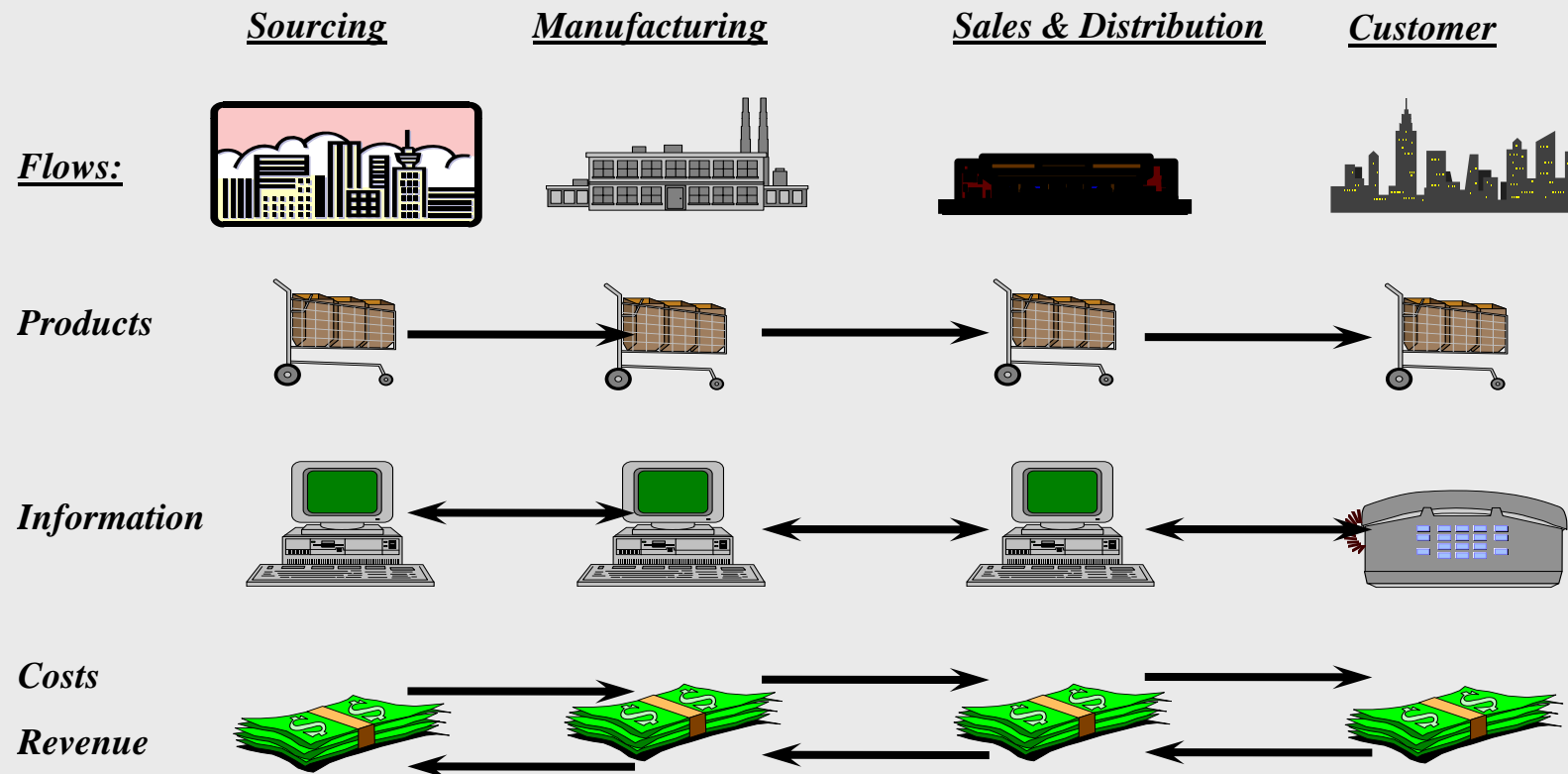
Recent assignments found that inefficiencies in business operations waste as much as 25% of an organization's operating costs. With profit margins of 3 to 4%, even a 5% reduction in waste can double a company's profitability. Key drivers of this value creation include

- **Revenue** - capacity utilization, product speed to market, stock-outs, and service to customers
- **Expenses** - inventory carrying costs, production and distribution costs, transportation costs, logistics productivity, outsourcing, and asset utilization
- **Capital Utilization** - working capital (inventory turns, order cycle time) and fixed assets (plants/DC locations, fleet utilization, strategic outsourcing)

By lowering costs and increasing asset utilization, business operations can free up cash.

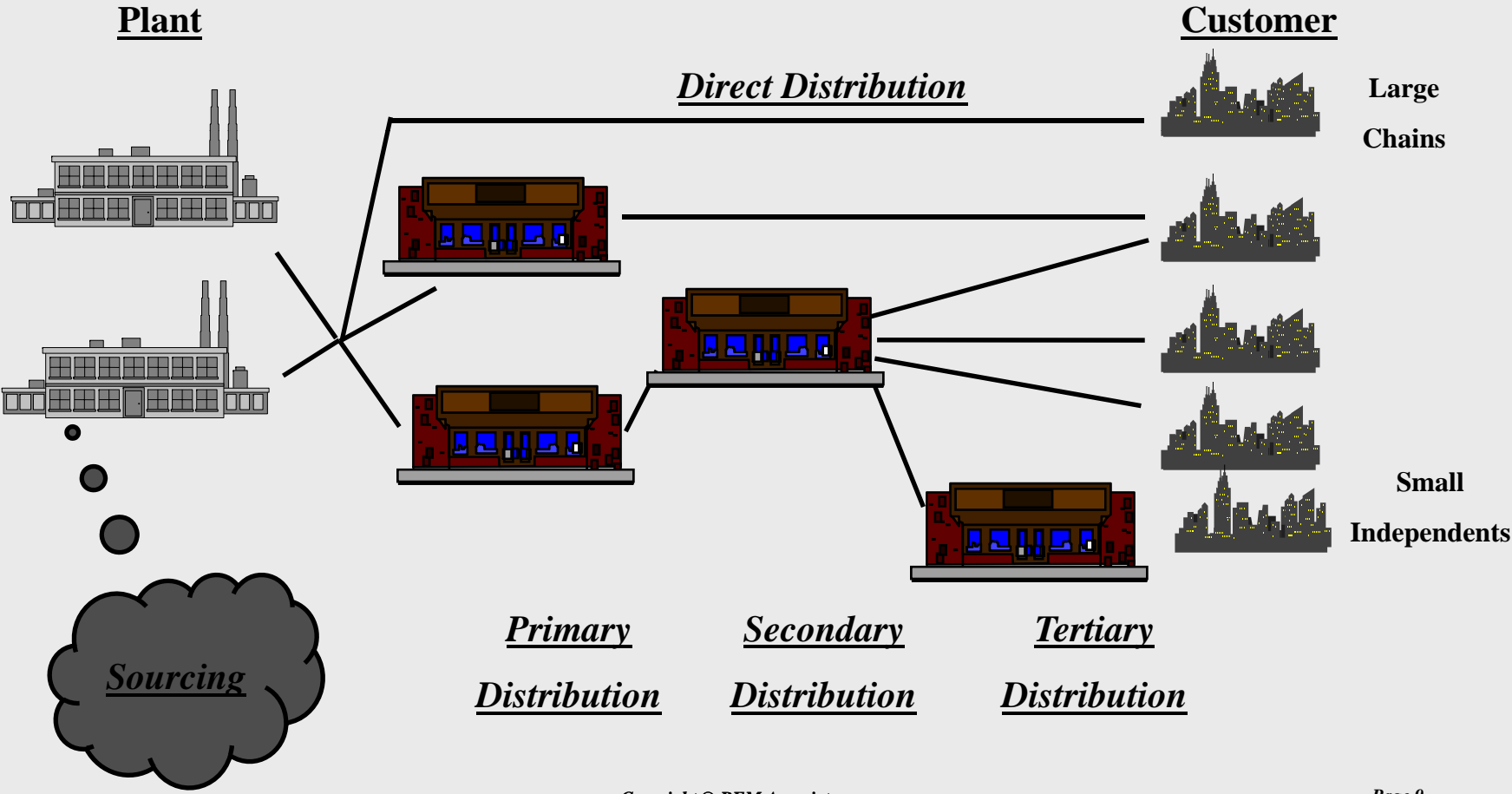
The Business Logistics Process

The logic of business operations relates directly to the flow of products, information, and costs through the business and to the customer



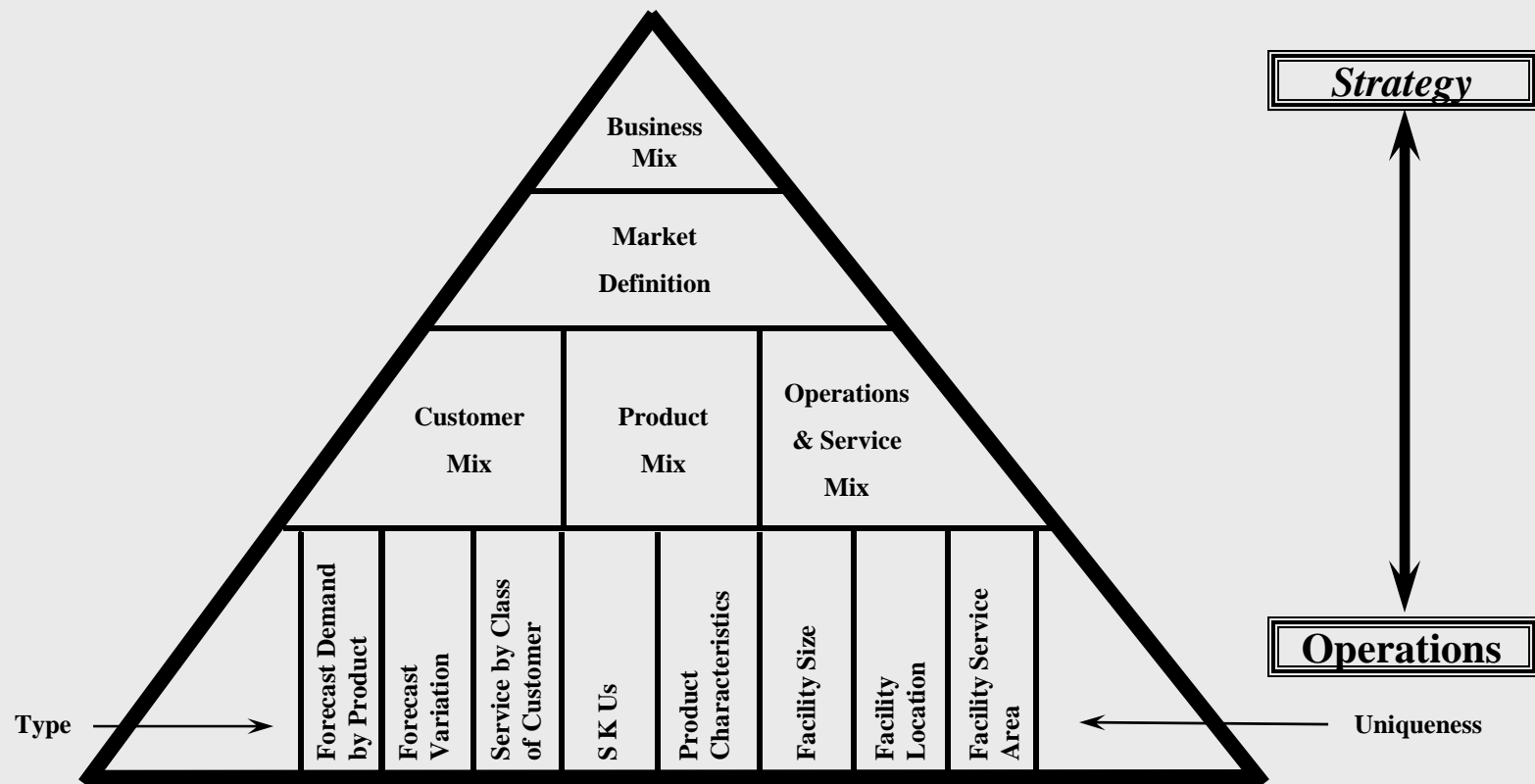
The Business Logistics Process

There are several levels of business logistics between the product source and the customer



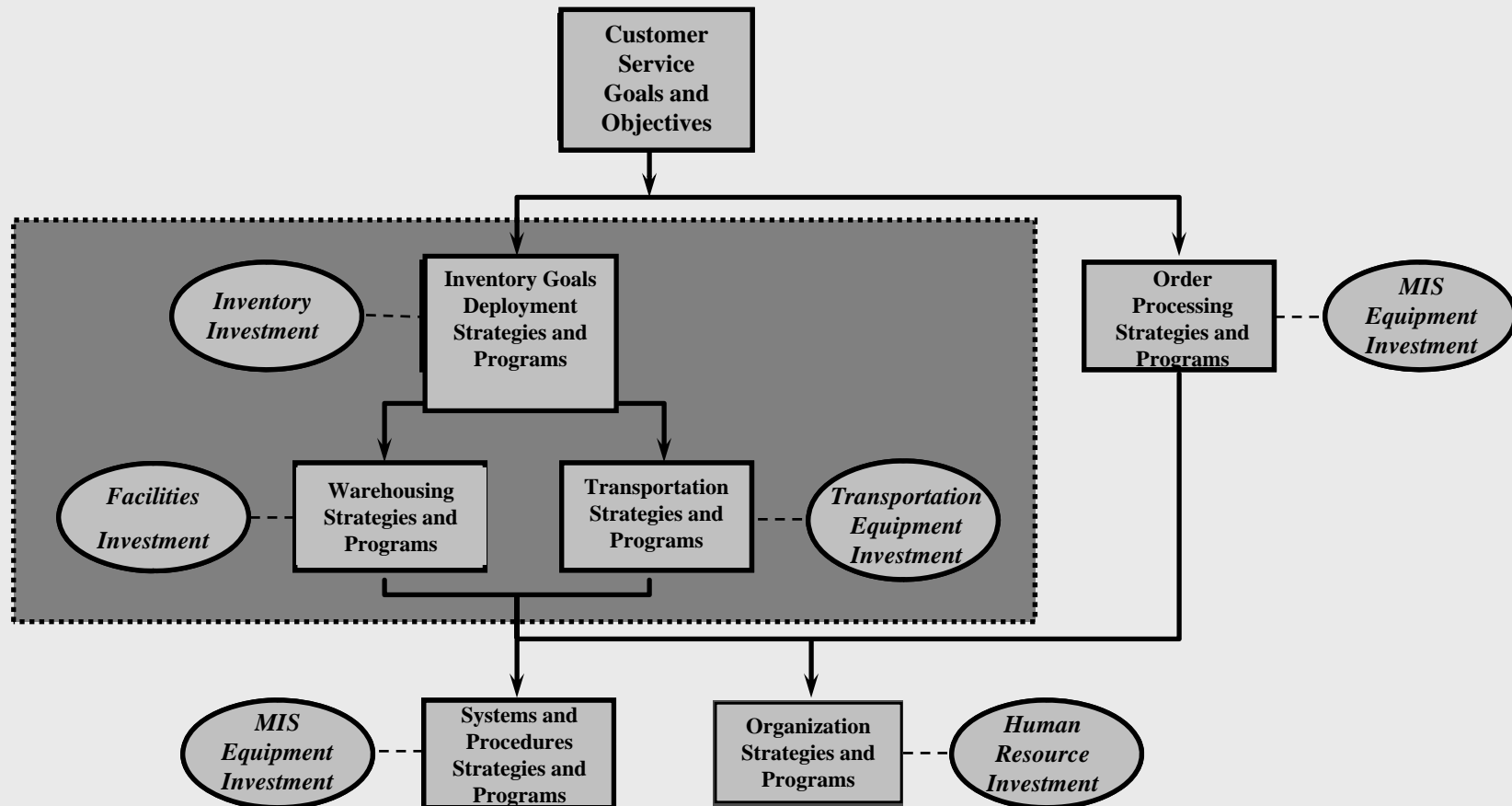
The Business Logistics Process

Strategic issues are generally of a broader scope than those of day-to-day operations issues



The Business Logistics Process

The hierarchy of business logistics operations with customers and their service



The Business Logistics Process

A number of factors must be evaluated to determine the best cost and service mix in a business logistics structure

COST:

- Number of warehouses
- Location of warehouses
- Shipment modes
- Size of shipments
- Frequency of shipments
- Shipment consolidation
- Operating methods
- Storage requirements
- Regulatory requirements

SERVICE:

- Order processing times
 - Customer service
 - Operations
 - Transportation
- Inventory service
 - Stock vs. non-stock
 - In-stock position
- Delivery reliability
- Freight consolidation holding times
- Information systems

INVENTORY:

- Stock vs. non-stock
- In-stock position
- Variability of demand
- Frequency of replenishment
- Transit times
- Inventory carrying costs

The Business Logistics Process

An effective business logistics strategy requires the balancing of conflicting management objectives

<u>Logistics Objectives:</u>	<u>Impact of Objectives on:</u>		
	<u>Inventory:</u>	<u>Customer Service:</u>	<u>Costs:</u>
■ High customer service	↑	↑	↑
■ Low warehousing costs	↑	↓	↓
■ Low transportation costs	↓	↓	↓
■ Reduced inventories	↓	↓	↓
■ Fast deliveries	↑	↑	↑
■ Reduced labor costs	↑	↓	↓
■ <u>Desired results</u>	↓	↑	↓

Business Logistics Re-engineering Process

Business strategy deals with planning the intermediate and longer-term direction of the business, including

- Business mission
- Key strategic thrusts
- Business goals and objectives
- Action plans aimed at strategy implementation.

Business re-engineering is directed at assessing and improving policies, procedures, and practices to improve costs, customer service, and business effectiveness, including

- Operations and process assessments
- Data and information flows and linkages
- Policies, procedures, and practices completeness, consistency, and effectiveness
- Organization structure and responsibilities – ownership.

A Sample Client Business Profile

Our client was a major West coast pharmaceutical manufacturer

- The largest United States private-label manufacturer of:
 - Vitamins
 - Minerals
 - Nutritional supplements
 - OTC pharmaceuticals in the United States
- 4,000 stock keeping units - SKUs
- 27 billion pills annually
- East coast and West coast plant locations
- Inventories turning at 2.5 times per year
- Service levels were at about 70 percent
- Major customers included Wal-Mart, CVS, Costco, and Safeway
- Retailers were reducing inventories and compressing lead-times.

Analyzing Business Logistics – Current State

For our pharmaceutical manufacturing client

- **Our Work:** Assessed business operations to:
 - Improve product and customer demand forecasting, including promotional activity
 - Reduce operational costs of functional activities
 - Improve service to all customers, including retail, wholesale, and military
 - Reduce inventories and related business investments at all levels, including raw materials, WIP, and finished goods

- **The Results:** Our work resulted in:
 - Inventory reduction of over 35%
 - Improved customer service to over 96%
 - Increased major customer in-stock position to over 97%
 - Reorganized key management functions and responsibilities which significantly improved communications, decision making, and timeliness of management actions.

Analyzing Business Logistics – Key Issues

*There are two primary drivers to successful business logistics management.
They are*

■ Business logistics costs:

- Operating costs
 - » Purchasing
 - » Warehousing
 - » Production
 - » Transportation
 - » Customer service
 - » Systems and support
- Capital costs
 - » Inventory – working capital
 - Raw materials
 - WIP
 - Finished goods.

■ Customer Service:

- Order cycle
 - » Placement
 - » Processing
- Order delivery
 - » Assembly
 - » Transportation
- Order completeness
 - » “What was wanted”
 - » “Useable condition.”

Analyzing Business Logistics – Findings

For our West coast pharmaceutical company, we found that

- Customer service levels had plunged into the low 70% range
 - Their largest customer – “Big W” was ready to drop them
 - Other key customers were chronically complaining about service
- Inventory levels exceeded \$140 million against annual sales volume of approximately \$70 million
 - Inventory turns were about 5 per year
 - Significant amount of obsolete stock
 - Wrong product, wrong location, wrong time
- Lack of management focus
 - “Throw resources and dollars at the problem
 - No root cause analysis and focus.

Analyzing Business Logistics – “What to do about it”

Two key areas of focus for our limited time today – 1) Inventory

■ Inventory segmentation:

- Pareto 80 – 20 rule
 - » 20 percent of the SKUs account for 80 percent of the volume – A items
- 30 percent of the SKUs account for 15 percent of the volume – B items
 - » 50 percent of the SKUs account for 5 percent of the volume – C items
 - » 3-5 percent of the SKUs account for 40-50 percent of the volume – AAs
- D or dead inventory or items that have not moved in more than 1 year

■ Solution:

- Segment inventory into the above categories
- Set rules for production and inventory by class of item
- Establish program to eliminate “D” items

■ Result: Inventory levels went from \$140 to less than \$100 million.

Analyzing Business Logistics – “What to do about it”

Two key areas of focus for our limited time today – 2) Service levels

- Customer segmentation:

- Pareto 80 – 20 rule
- The big three – “W,” “C,” & “SC”

- Solution:

- Focus on “Big three” and other key customers
- The “W” team and their meetings
- Segment service levels
 - » Volume/price
 - » Delivery
 - » Third party

- Result: service levels rose to the mid 90s and over 95 for the “Big three.”

Analyzing Business Logistics – “What to do about it”

Customer segmentation includes Marketing, Sales, Finance, and Logistics to effectively support the growth of the business

- Customer classification into four primary groups
 - New and emerging customers
 - » Recently acquired
 - » New programs and incentives
 - Rapidly growing customers
 - Major or key accounts
 - » Highest levels of service
 - » Focus of sales and logistics
 - Mature customers
- All require different focus and management.

Analyzing Business Logistics – Reporting

Management reporting needs to include sufficient information and level of detail for decision making

- Management reporting must focus on getting the “Right:”
 - Information – data and level of detail
 - People – levels of management
 - Effective decision making
- Focus on the 20 of the issue that will get 80% of the results
 - Optimize time and resources
 - Expedite decision making
 - Example - modeling
- “The old industrial engineering principle”
 - “Get whatever you can” – how to eat an elephant
 - “Come back again and again until you “Get it all.”

Analyzing Business Logistics – Implementation

Implementation requires careful planning and management

- Clear definition of tasks and activities
 - What needs to be done – be specific
 - Specific tasks to fully implement
- Prioritization of tasks
 - Biggest bang for the “buck”
 - Quickest result to demonstrate achievements
- Assignment of:
 - Roles and responsibilities
 - Timing
 - Completion dates
- Monitoring and reporting
 - Periodic
 - Consistent
- “Don’t confuse effort with results.” - BAH

Business Logistics Re-engineering - Summary

In summary, today Business Logistics represents a key management component

- Our West coast pharmaceutical company:
 - The company went into Chapter 11 – bankruptcy
 - Came out of bankruptcy within just a few months
 - One of the shortest bankruptcy/reorganizations in history
 - A significant contribution to this success was improvements in business logistics
 - » \$40 million contribution to capital
 - » Retaining and improving service to key customers
- Article “Logistics finally makes it to the Boardroom”

Business Logistics Re-engineering - Summary

In summary, today Business Logistics represents a key management component – Cont'd

- Group Discussion:
 - Clarification - explanation
 - Question and answers
 - Dialogue
 - Free consulting.....

Let's Discuss

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