

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.

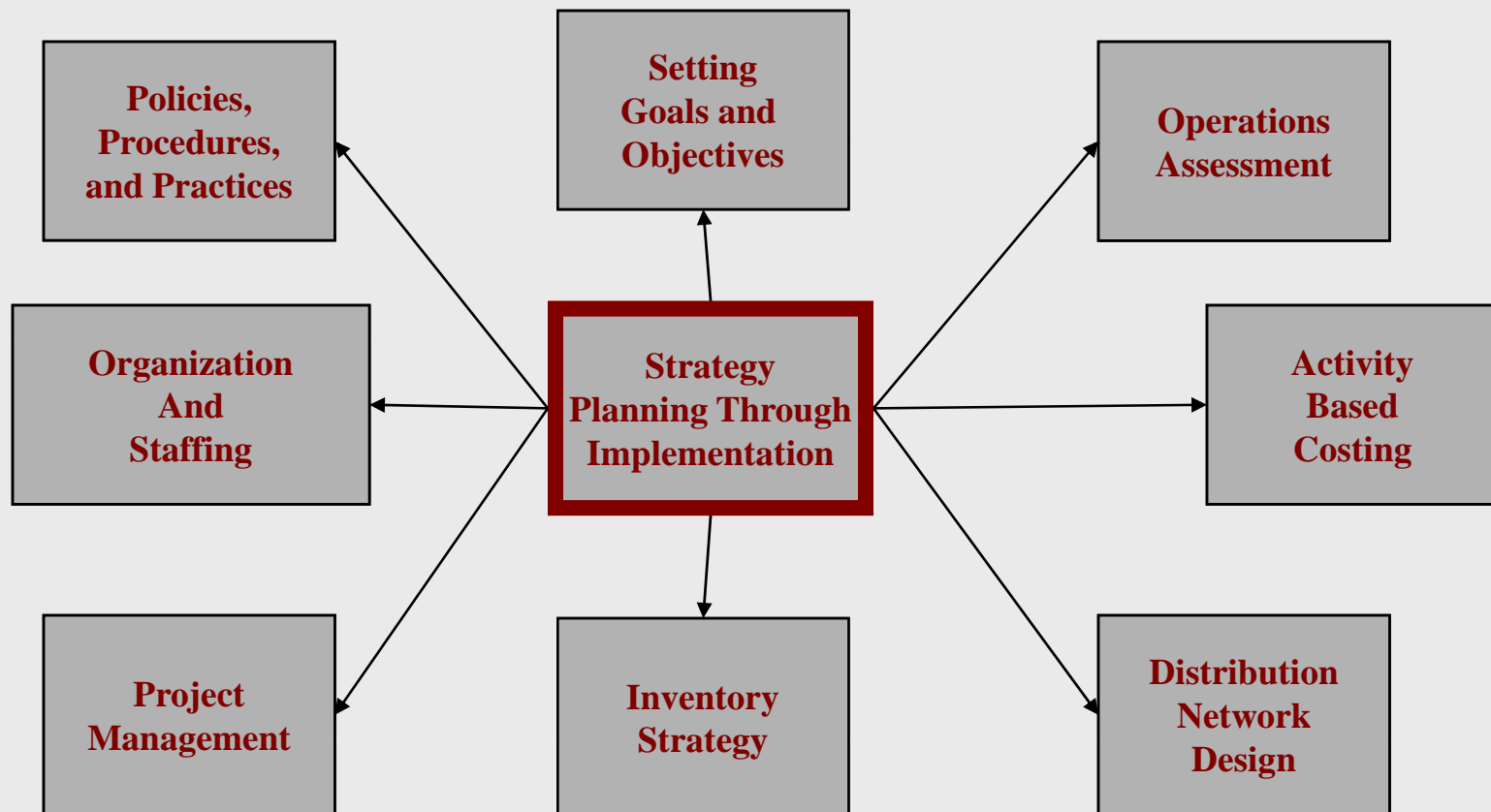
Profile of REM Associates

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

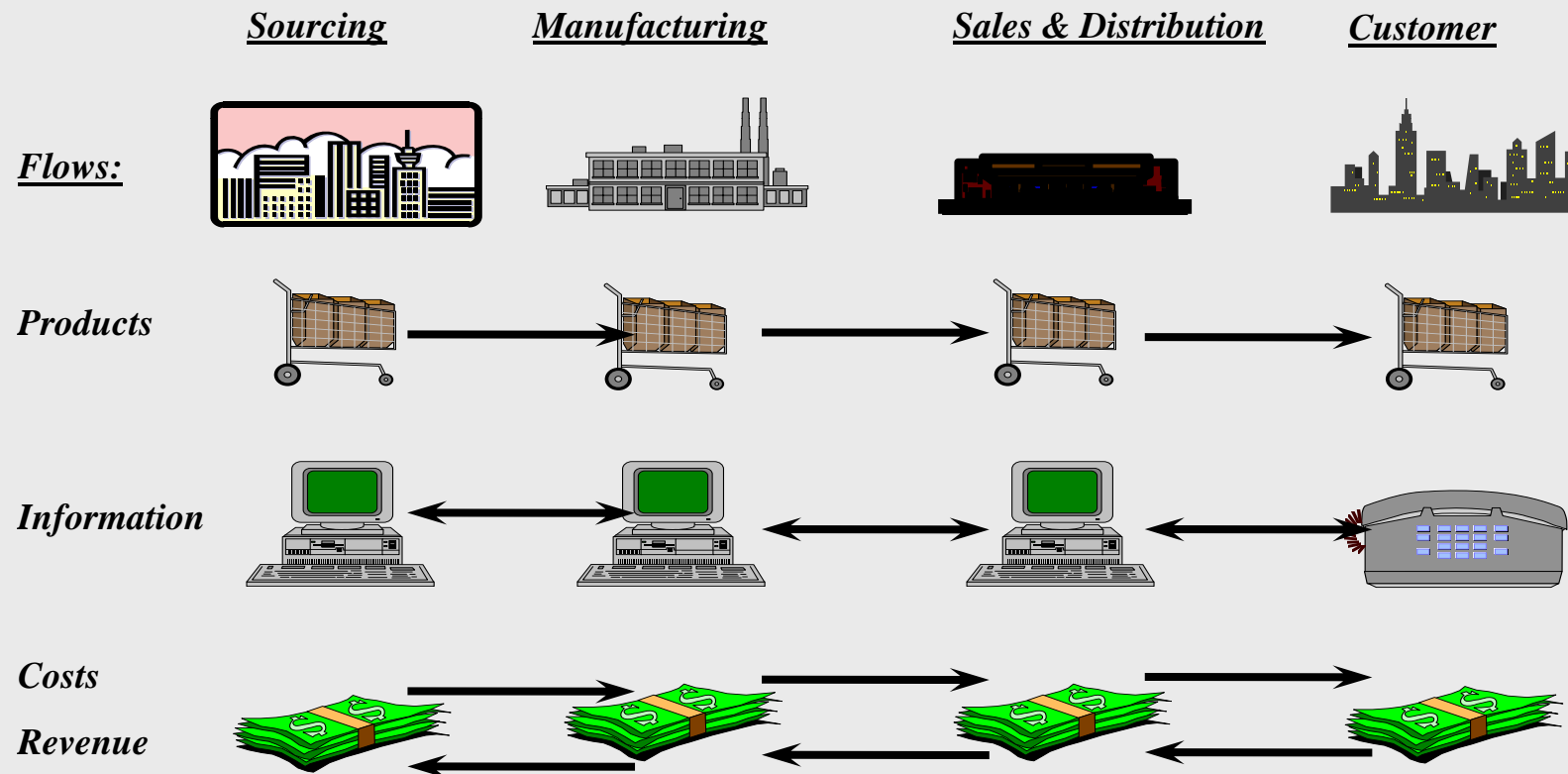
Recent assignments found that inefficiencies in business operations waste as much as 25% of an organization's operating costs. With profit margins of 3 to 4%, even a 5% reduction in waste can double a company's profitability. Key drivers of this value creation include

- **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.

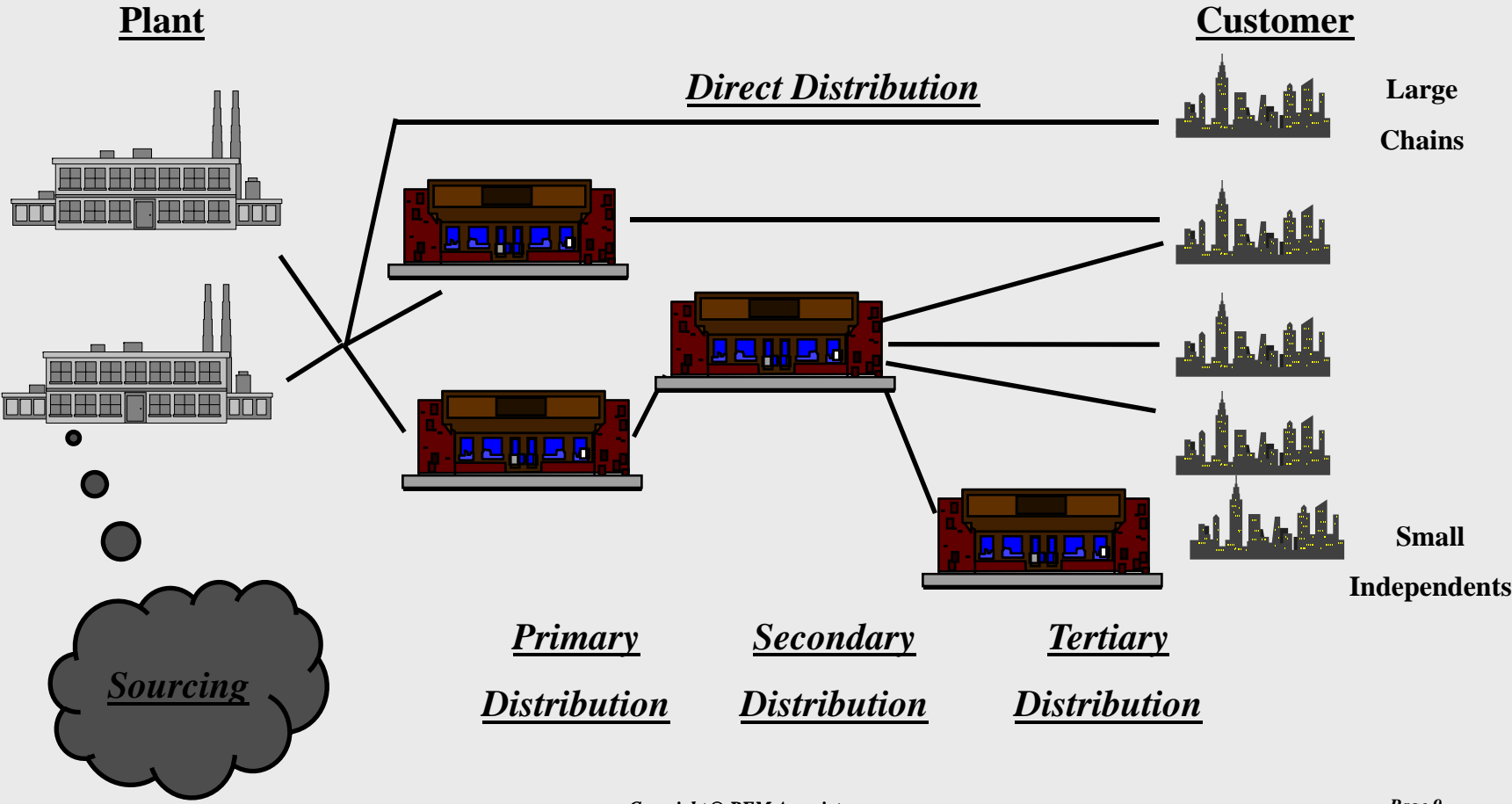
The Business Logistics Process

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



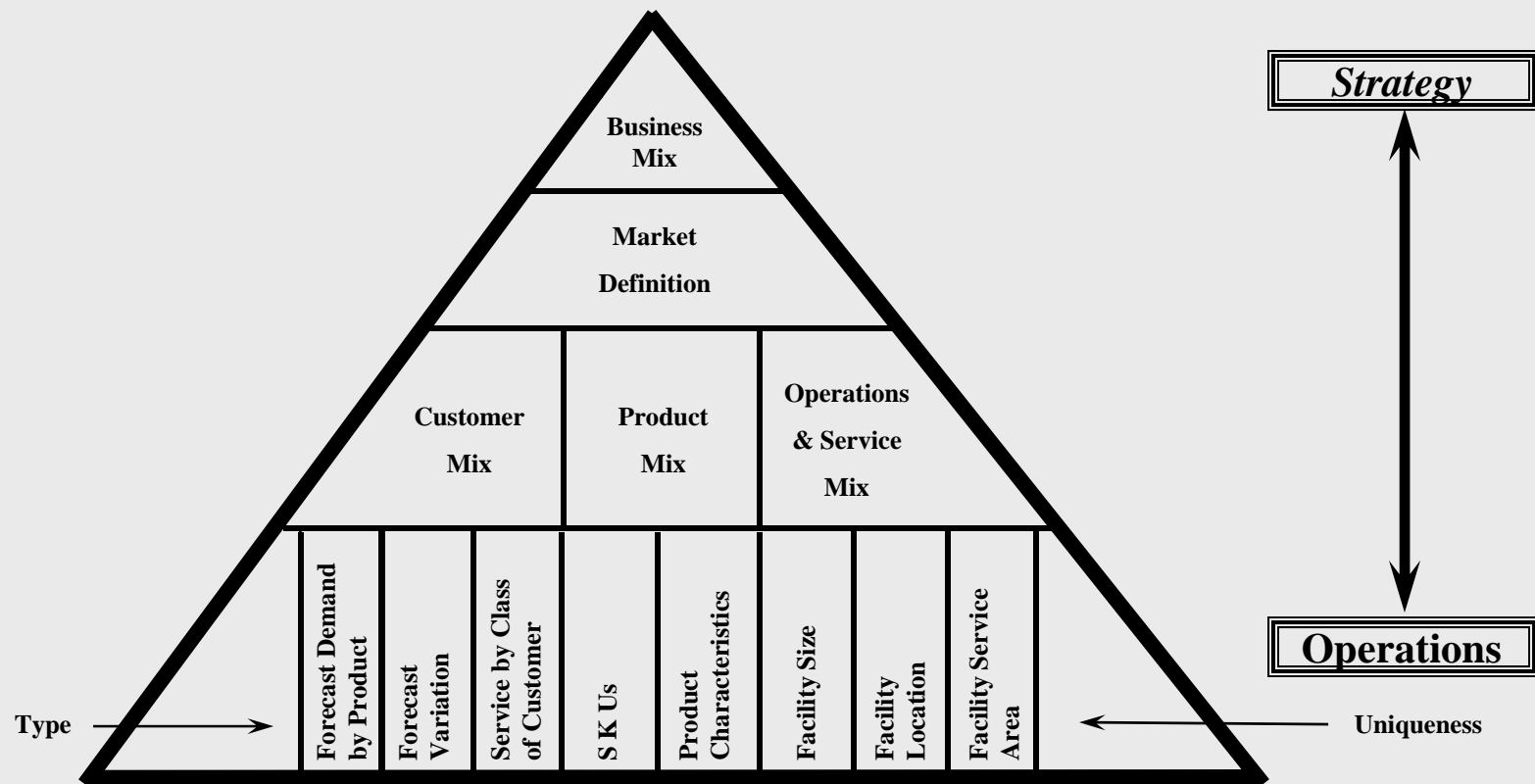
The Business Logistics Process

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



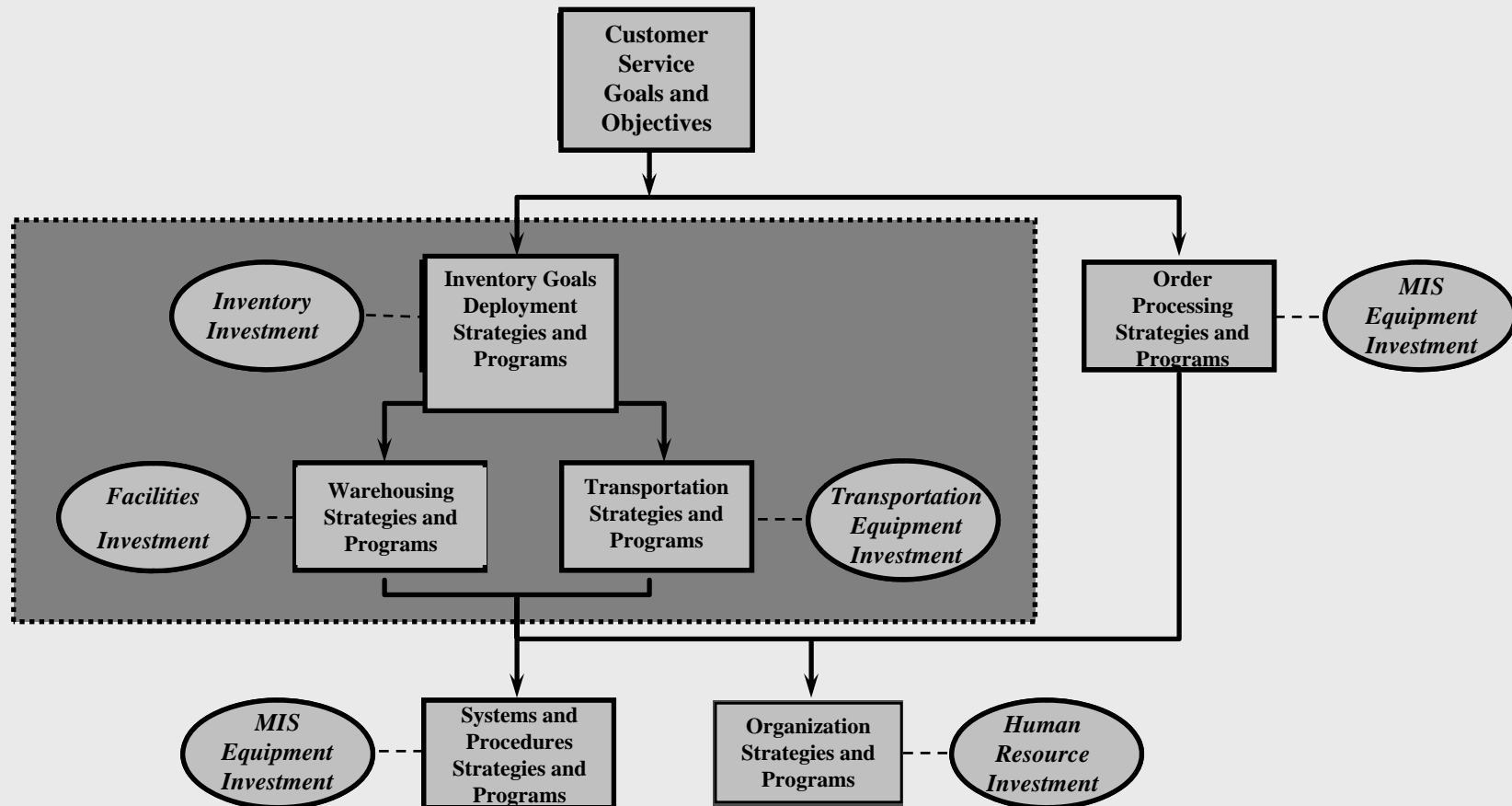
The Business Logistics Process

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 – Class

Additional class participation slides will be included during the presentation

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