



## Logistics Association of Australia Ltd

### COLLABORATIVE SUCCESSES

The Logistics Development Award is sponsored by CHEP Australia and supported by TMP Worldwide.

Following is the third in a series of articles from Paul Walton, winner of the Logistics Development Award 2001, sponsored by CHEP Australia and supported by TMP Worldwide.

Collaborative Themes, my article in the last LAA newsletter, covered the development and US lessons in collaborative commerce. This second paper on Collaboration is titled Collaborative Successes. It reviews three very different case studies of pioneering firms in the collaborative arena. Each has achieved significant business outcomes.

#### **Company Description**

Grainger is a mail and web order company that specialises in Industrial Supply.

Some key statistics include:

Sales: US\$5 billion per annum (60% Woolworths or Coles Supermarket size)

Inventory: US\$1 billion

Suppliers: 1,200

#### **Business Driver for Change**

Grainger's business perspective is that "Our Supply Chain Constituents are Partners in Serving our Mutual Customer." They assert that "We no longer compete against other companies. We compete against other Supply Chains. The race is on to see who can optimise first."

As part of this philosophy Grainger have a strong focus on Total Cost of Procurement as a measurement. This measurement is:

Cost of Product + Cost of Quality = TCOP

The Cost of Quality includes non-conformance items such as early and late shipments, receipt variances, invoice errors, recalls, warranty returns, and replacement parts. These items are all calculated using activity based costing.

In 1998 Grainger's Cost of Quality exceeded US\$80 million.

#### **Strategies Formulated**

Grainger’s Supply Chain mission is to “Utilise the Supply Chain Management System (SCMS) to drive collaboration, visibility, precision and cost reduction throughout our supply chain.”

The SCMS is built upon underlying principles of Supplier Certification. This Vendor Management strategy encompasses:

- Establishment of clear goals and objectives
- Working with suppliers for mutual benefit
- Measurement and review of supplier performance
- Determination of net costs and elimination of waste
- Recognition of supplier accomplishments
- Programs Established

Grainger established a web based vendor relationship management system titled SupplierConnect based upon the model “Blueprint to Webify our Supply Chain”.

The SupplierConnect portal (supplierconnect.com) was established in 1997 and now has over 10,000 user sessions per month with over 1200 suppliers. On-line capability available to-date includes:

<b>Strategic Sourcing</b>	<b>Supply and Demand Management</b>	<b>Commerce and Performance Management</b>
Request for information	POS Report	Debit/Credit Memos
Request for Proposal	Collaborative Forecast/Order	Payment Status
Proposal Status	Lead Time Maintenance	On-line Communication
Supplier Certification	PO / ASN Viewing	Vendor Self-Assessment
On-line Auction	Carrier Pick-up Request	Vendor Training
Account Management	Alerts	Vendor Performance

Large suppliers are able to utilise EDI with Grainger decoding using webMethods software.

**Results**

The results of the Grainger initiative are extremely encouraging for other big retailers. Improvements since 1998:

On-time Shipping	52%	US \$16 mil
Receipt Variances	16%	US \$1 mil
Warranty Returns	9%	US \$4 mil
TCOP	28%	US \$23 mil

**Company Description**

MicronPC is a manufacturer that produces a variety of high tech goods and services. Their products are sold via the company's website, by telephone, through field sales, and retailers.

### **Business Driver for Change**

A new supply chain management team was appointed in 1998 as part of organisational restructuring, the team was given the task of supply chain revitalisation.

The team quickly identified the challenges at hand. Key problems included:

- Over a month of inventory (\$US 130 million) in an industry critically concerned with obsolescence.
- A cash liquidity crisis. Parts payment was due well before revenue generation.
- Customer service levels were very low with excessive lead times averaging 14 days.

### **Strategies Formulated**

MicronPC understood that the original company strategy – building leading edge PCs and pushing them into the marketplace – would not work against demand driven configure-to-order assemblers such as Dell and Gateway.

The company revised their strategy to a customer-based pull system. They adopted a battle cry of "17-11-2" to increase gross margins to 17%, while dropping operating expenses to 11% in the time span of 2 quarters.

### **Programs Established**

MicronPC immediately redesigned its manufacturing process to suit maximum efficiency and faster product flows.

The supplier base was streamlined by 50%, and the remainder were classified Tolerated (one critical software supplier), Preferred, and Partnering. All suppliers were required to participate in JIT delivery to the newly established Supply Logistics Centres (SLC's) located near the manufacturing facility.

Partnering suppliers were the few elite suppliers who deserve and desire a strategic alliance – the relationships incorporated information sharing, idea collaboration, joint forecasting, and joint strategic planning. These Partner suppliers included the four 3PL's operating the SLCs and inbound transportation, and UPS who provided outbound distribution.

### **Results**

MicronPC's collaborative relationship with one of the 3PL SLC operators has developed to such an extent that the company is now managing portions of MRP and purchasing, handling vendor quality issues and dealing directly with suppliers.

Overall improvements include:

Inventory	87%	US \$113 mil
Product Lead-Time	60-70%	9 days
Forecast Accuracy	97%	US \$4 mil

## **Company Description**

Tyco Mallinckrodt are a manufacturer and marketer of healthcare products.

## **Business Driver for Change**

Tyco's network operated primarily through distributors. With a distributor network, Tyco did not have the desired control of inventory and service levels - and identified significant lost sales as a result of product stock shortages on their 66,000 line items. Additionally, execution of Sales and Marketing strategies were very difficult with significant pipeline stock in distributor networks.

## **Strategies Formulated**

Tyco targeted its strategy to three areas: increase service levels, decrease inventory, increase sales.

To encourage participation, distributors were offered better terms and service for participation. The concept was trialled in generic markets first, where customers are more likely to switch.

## **Programs Established**

Tyco began collaboration with a single distributor in 1998 on a paper-based system. The majority of distributors are now collaborating using EDI, the decoding tool used is webMethods.

Currently, the distributor produces a sales forecast that is compared with Tyco's. Distributor business rules are applied to identify exceptions (e.g. 20% difference). These are reconciled by a team of planning specialists, who consult the distributor on issues.

Distributor warehouses are integrated in the Tyco DRP network and information is received each morning on sales and inventory for the previous day. Tyco produces a daily order forecast that must be accepted by the distributor to execute, however the stock is reserved until the customer has actioned the forecast. Customers are sent advanced shipment notices on despatch, and confirm on receipt.

## **Results**

Tyco's success has been astounding. Results include:

Safety Stock	33% decrease
Sales	23% increase
97.5% Service Level	16.6 Inventory Turns
40+ Turns A Items	Distributor Cost Savings