Outsourcing "Points of Pain" in the Supply Chain

Sophisticated third party logistics providers are partnering with companies to handle global sourcing differences, improve product fill rates, and eliminate other "points of pain" in the supply chain

CEOs and senior executives typically focus on making the sale, the product, and driving down unit cost, but seldom devote the same attention to improving the logistics side of the equation: customer fulfillment or inventory management. Yet considering how quickly a missed delivery or incorrect shipment can sour a customer relationship and even cause the loss of existing or returning customers, this is surprisingly short sighted.

Furthermore, problems caused by poor supply chain management often appear to be caused elsewhere in the company. For example, sales starts blaming production for lost revenue; production starts blaming sales for client losses – while in-house logistics and inventory management are the true sources of the problem.

So how can you know if your logistics operation is the source of the problem? If, as a company executive you've heard any of the following, then you very likely have "points of pain" caused by the supply chain:

> Sales are up, but overall profits are down, due to the cost of re-investment for in-house logistics to meet specific customer shipping needs.
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> One of our biggest customers just called and chewed us out for missing a delivery. They're telling us to get our act together, or else…
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> Our customer is delaying payment because we didn't ship the right quantity of product and it was late. Now they're asking for a price accommodation.
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> Production expedited product manufacture at additional cost, but it still didn't get to the client on time because it sat in the warehouse.
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> Production is complaining that sales isn't selling enough to keep production running efficiently, when in fact poor logistics is causing low client retention.

The High Cost of Poor Logistics

Simply put, a company has two main chances to impress a customer - at the point of sale and receipt of product. While slipping up on delivery may seem like a forgivable oversight to a company's internal shipping department, it can not only damage a company's balance sheet but also cost them customers.

"Because the market is so competitive, I need the right part, at the right place, at the right time to be successful," says Ron Maltarich, President of Tendeco Sales Inc., a supplier of aftermarket pulleys and tensioners for the automotive industry.

"Get it wrong and I've lost a customer," explains Maltarich. "Or I've racked up extra cost and complexity through re-ordering, back-ordering, canceling, or expediting."

Stock-outs can be particularly painful to a company's bottom line when the out of stock product is part of the 15% that typically accounts for 80% of a company's sales.

Besides the hit to brand and customer loyalty caused by a stock-out, a mismanaged supply chain can also contribute to inventory loss, slow inventory turns, inaccurate inventory balances, delayed collection of accounts receivable, as well as lost resources spent handling delivery errors better spent elsewhere.

High Expectations, More Complexity

The Internet further complicates the manufacturing landscape by raising customer expectations of order availability and customization. Previously, a customer may have accepted slow shipment and standard packing, but today they're more likely to seek out a competitor's alternative or insist on expedited delivery, special packing, packaging, labeling, or tracking.

Moreover, globalization has stretched out lead times and added complex layers to product sourcing and distribution among global, domestic, and regional suppliers and customers.

Yet many companies remain wedded to outdated, in-house logistics practices based too often on how things have always been done. They lack flexibility, speed, and accountability. These companies accustomed to in-house fulfillment, in fact, are often unaware of the extent of their logistics problem.

"In-house logistics departments lack the flexibility to service special customer requests," says Maltarich, who spent much of his career in senior management at a Fortune 500 company before starting Tendeco. "They may attempt a special label, packing slip, or order entry if important. But this invariably disrupts processes and ends up costing more than it's worth."

Outsourcing Pain in the Supply Chain

With the complexity of global supply chains, expense of updating warehouse management systems, and rigorous accounting and inventory oversight brought on by Sarbanes-Oxley, companies are re-evaluating the wisdom of keeping critical supply chain management/customer fulfillment services in-house.

Instead, many companies are turning to a new breed of third party logistics (3PL) providers. These "sophisticated" 3PLs do far more than just offload, store, and ship product - the routine functions of a standard third party logistics provider.

Sophisticated 3PLs literally partner with the company to protect the performance of its brand, ensuring that customers receive what they ordered, when and how they need it. They do this transparently, so the company's brand receives all the attention. To achieve this, they integrate fully with customers at all the touchpoints of shipment, including invoicing, inventory management and reconciliation.

Sophisticated 3PLs not only enable JIT delivery, system integration, and real-time Internet tracking, but also inventory analysis to maximize a company's fill-rates, inventory turns, and ROI. They do all this and more for a company, so the company doesn't have to make its own ongoing capital investments in logistics, which can run an initial half-million dollars or more for sophisticated 3PL capability.

When Maltarich set the standard for fill rates on Tendeco's aftermarket automotive supply business at 95% within 48 hours, he relied on Kenakore Solutions, a Perrysburg, Ohio-based sophisticated 3PL provider. He made his selection from a wide field of 3PL competitors based on cost, focus, flexibility, compatibility, and technical infrastructure.

A 100% bar-coded environment now helps ensure investment-grade inventory accuracy for Tendeco, while real time processing delivers faster market response.

“Kenakore helps us consolidate bulk product from Brazil, Korea, Germany, and Canada, as well as optimize inventory for shipment to hundreds of customers worldwide,” says Maltarich. “Not only has our inventory shrinkage improved, but now we’re filling more than 98% of orders within 48 hours. That’s 5-8% higher than the average product fill rate of our competitors, which differentiates us in a very competitive market.”

“If we need something special, Kenakore gets it done,” continues Maltarich. “Our relationship is really a partnership.”

To safeguard customer commitments and optimize inventory levels, sophisticated 3PLs like Kenakore coordinate supply line variations from global, domestic, and regional sources to ensure on-time production and shipment. They consolidate product from multiple sources so customers get a single, complete shipment rather than multiple partial shipments. They accommodate special requests such as kitting, assembly, labeling, packaging, and private branding.

Dana Corporation, a partner to automotive, commercial, and off-highway vehicle customers with employees in 28 countries, understands the importance of optimizing the supply chain to better service its customers, who made $9.1 billion in purchases in 2004.

“To succeed in the future, companies will have to master their supply chains,” said Vicky Black, Vice President of Dana Corporation’s Service Parts Division. “It’s not just a matter of being efficient, but of satisfying the customer at the two main points of contact - at the point of sale and point of delivery. Since so many products are becoming commodities with global competition, product availability and on-time, error-free deliveries are becoming essential differentiating factors in making the sale.”

Recently, Dana Corporation relied on sophisticated third party logistics for warehouse management, product consolidation, kitting, and packaging. In analyzing order patterns and product in/outflow, Kenakore was able to identify Dana Corporations fastest selling items at a distribution center.

“While we had good product availability, we wanted better,” explains Black. “With all the resources that go into R&D, production, and marketing, we certainly didn’t want to miss the last link of the sales chain. In a competitive marketplace, that could be the difference between making the sale or giving it to a competitor.”

"Acting on inventory analysis, we improved the product availability of our fastest selling products by 30%," continues Black. "Further analysis of our order and product in/out flow patterns also helped us to automate order entry, allowing us to cut the lead time on thousands of products."

The bottom line for CEOs and senior executives is that sophisticated 3PL providers like Kenakore are capable of ensuring that a company's end customers receive on-time, error-free shipment despite today's complex logistics, global sourcing differences, and JIT inventory challenges. They can also help a company uphold its brand integrity through customer product receipt, seamlessly providing product with all the necessary labeling, paperwork, and customer-requested extras.

In today's demanding marketplace, sophisticated 3PL providers are a practical, cost-effective way to eliminate pain in the supply chain, without diverting capital to train and upgrade traditionally inflexible, in-house logistics departments.

For more info on sophisticated 3PL providers, call 419-661-1233; fax 419-661-1251; visit www.kenakoresolutions.com; or write to Kenakore Solutions at 487 J Street, Perrysburg, Ohio 43551.

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