

# SUPPLY CHAIN MANAGEMENT: RESTRUCTURING LOGISTICS NETWORKS TO IMPROVE PROFITABILITY AND SERVICE

## BACKGROUND

A global original equipment manufacturer (OEM) in the automotive industry sought to craft a best-in-class delivery network covering their retail and aftermarket service parts supply chain. The automotive retail service parts distributor's vision was to establish a next-day order-to-delivery solution for its 4,000 U.S.-based retail outlets, but struggled with how to accomplish it. The automotive retail service parts distributor teamed up with Schneider Supply Chain Management to turn the complex strategy into a realistic solution.

## SITUATION

Retail outlets, the OEM's customers, were faced with infrequent delivery of orders due to a sparse distribution network. To compound matters the retail outlets needed to carry a wide assortment of parts in hopes of having the right product at the point of sale. The retail service parts distributor identified four key objectives and needed a logistics partner to help achieve their goals:

1. Create customer loyalty through improved customer service experience
2. Increase retail outlet frequency of order replenishment from weekly to daily
3. Increase the retail outlets' profitability, while decreasing the retail distributor's cost
4. Increase the retail outlets' available working capital, so the capital can be used to purchase more of the right parts from the retail distributor

Throwing a major curveball into the challenge at hand was the unpredictable order pattern of retail service parts. Additionally, because retail outlets typically use working capital to keep a high level of inventory on hand (but not necessarily the right parts), inventory carrying cost was significantly high for the retail outlets. Meanwhile, that inventory was only available at eight distribution centers across the U.S., resulting in stock orders being sluggishly replaced on a weekly basis. Without a doubt, there was an opportunity to create a higher service network with the resilience to quickly right-size to customer order demand.

In today's retail world, running in real time is not a nice end goal—it's a prerequisite for preserving customer service and boosting sales. This realization was not lost on the retail service parts distributor; they knew they needed help in streamlining their delivery model to support daily replenishment of orders. Schneider Supply Chain Management aimed to execute the retail service parts distributor's vision of a uniform world-class delivery network and strike a balance between cost and service.

## **SOLUTION**

Working quickly but carefully, Schneider Supply Chain Management and the retail service parts distributor collaboratively devised a plan that offered dedicated and integrated delivery solutions featuring late afternoon retail outlet order times and early morning next-day delivery throughout the United States. Additionally, the team was able to turn a complex concept into a logistics solution that allowed the retail service parts distributor to segment inventory by sales volume, part type and part size.

Keeping the spotlight on customer service, Schneider Supply Chain Management contracted and managed dedicated delivery service carriers and cross-dock facilities for shipment consolidation. Moreover, Schneider Supply Chain Management established customer on-site traffic management to manage flow from the distribution centers through the cross docks to retail outlets.

But what's a great solution without a measurement program? The Schneider Supply Chain Management team established metrics to manage all transportation service elements and utilized Schneider's proprietary TMS for shipment management and parts visibility. This advanced software made tracking and freight flow management possible, providing the retail service parts distributor with additional functionality and improved performance to boot.

## RESULTS

Schneider Supply Chain Management did exactly what they promised to do. The team updated the OEM's logistics network with sleek processes that topped the customer's objectives:

- Convenience is everything. A dense network was established with a 425% increase in new distribution centers and cross docks. High sales volume parts were positioned closest to the 4,000 retail outlets in order to achieve next-day order-to-delivery service – as quick as 8 hours.
- Segmentation by part type, size and volume offered better density of like commodities, which reduced the overall supply chain inventory and distribution costs by 10%.
- Guaranteeing on-time deliveries was a big part of the retail service parts distributor customer service initiative. With Schneider's planned designs and procedures in play, the retail service parts distributor attained the goal to deliver 98% of its order on schedule (with a high of 99.4% in 2012).
- Schneider Supply Chain Management was also careful not to sacrifice cost for convenience. Over a five year period, Schneider Supply Chain Management extracted \$102 million in transportation costs through nonstop strategic planning and execution of logistic initiatives. What's more, Schneider Supply Chain Management's deep knowledge of the retail service parts distributor's operations reduced an additional \$15 million in non-transportation-related costs.

The upshot is that the company now has an expedient retail service parts delivery network that gives it a competitive advantage to best service the retail outlets and maintain customer loyalty. In addition, the retail outlet is able to count on having the right part delivered on time, while carrying a reduced inventory. As important, the retail service parts distributor saved millions by making the smart decision to partner with Schneider Supply Chain Management.

### TRANSFORMED

A WEEKLY  
REPLENISHMENT  
MODEL INTO  
A TIME SPECIFIC  
DAILY DELIVERY  
SYSTEM FOR

**4,000**

RETAIL OUTLETS

EXTRACTED  
\$102 MILLION  
IN

TRANSPORTATION  
COSTS