

Case Study

Implementation of Inbound Gateway System for Pet Food Express

In November, 2004 HA Logistics began implementing a supply chain solution for Pet Food Express (PFE), to gain better control of their inbound material. This case study details elements of the initial implementation. Subsequent case studies on this project over the next year will detail full implementation and the results after a full year of execution.

Supply Situation

Pet Food Express operates a chain of 23 retail stores in the San Francisco bay area, supplying a wide range of pet supplies to consumers. Products range from 50 lb. sacks of dog food to medicines, toys, bedding and other specialty items for pets and their owners. PFE has grown steadily since its founding in 1986, and anticipates continued growth with 4-5 new stores in 2005.

In 2004, to support its impressive growth PFE had expanded its supplier base to over 200 vendors, with 85 considered as primary suppliers, based on volume. PFE sent purchase orders to its suppliers using the conventional communication channels of fax and phone. Once the purchase order was faxed PFE waited, sometimes for days, to receive acknowledgement of the purchase order and the supplier's information about shipment quantity, shipping schedule, and carrier. Discrepancies, lack of response, and emergency expediting generated numbers of phone calls, more faxes, and emails to close the loop, clarify, and change the purchase order.

Key Learning:

***Deliver purchase orders and communication over the web, in a closed-loop system.
Fax, phone, and email don't work!***

PFE required suppliers to ship freight prepaid, so each supplier selected a carrier independently. As a result almost 70 different carriers were making deliveries to the PFE warehouse. The carriers frequently missed scheduled delivery appointments or showed up unexpectedly. Packing and routing lists were frequently incomplete, inaccurate, or even missing. Suppliers often shipped orders incomplete or with substitutions, without notifying PFE beforehand. Sometimes orders arrived as much as 60 days after the order was placed.

In short, the supply process was out of control, which was not surprising since the PFE team had been focused so effectively on growth and expansion.

Supply Chain Solution

HA Logistics designed a supply chain process that will achieve four specific objectives, based on the exact, identified needs of PFE:

Objectives for Supply Chain Solution for PFE

- Communicate and document what inbound material is due to be delivered to the PFE warehouse, and when.
- Assure supplier compliance with purchase orders and packing instructions.
- Reach 90%+ on-time deliveries within the first three months.
- Reduce the carrier base to three national carriers.

To achieve these objectives, HA and PFE are implementing a supply process built on three fundamental components.

Critical Components of Supply Chain Solution for PFE

- PFE will deliver all purchase order communications to suppliers via the Inbound Gateway Program, a closed-loop, integrated, web solution for managing purchase orders and shipments.
- Working together, PFE and HA Logistics will convert all shipments from freight prepaid to freight collect, and take over shipping responsibility from supplier.
- HA will take over full control of all aspects of the pick-up and delivery, using one of three national carriers selected by HA. Over time HA will optimize inbound shipments by consolidating LTL orders across suppliers.

Key Learning:

*Take control of the supply chain. Convert from freight prepaid to freight collect.
Control, manage and measure the inbound supply process.*

By implementing this solution, HA expects to achieve three powerful benefits for PFE.

- Measurable reduction in inventory on-hand.
- Better utilization of warehouse labor and warehouse space. This improvement may be captured as cost savings or used to accommodate growth with no incremental cost.
- Long-term reduction in freight expense through LTL consolidation and optimization. This savings will scale powerfully as PFE grows.

The Components of the Solution

Communicate through Inbound Gateway System

Inbound Gateway provides a direct, immediate, closed-loop communication channel to deliver purchase orders and shipping directions. PFE, its suppliers, and the carriers all operate from the secure Inbound Gateway website. PFE enters the purchase order and supplier ID. The supplier responds with fulfillment quantities by line item and availability date. PFE controls supplier response by setting thresholds for response time and maximum acceptable deviation from the

order quantity. HA consolidates the pick-up schedules for LTL shipments and sends an optimized set of routes to the carrier for execution.

As each pick-up is made, the product status is updated on the system. When the truck arrives at the PFE warehouse at the scheduled delivery time, warehouse personnel can quickly unload and stock the material, since they know exactly what material is on the truck. They recognize the format of the packing slips, since the slips are printed directly from Inbound Gateway at the supplier's location. Therefore, all the packing slips use the same standard format. Inbound Gateway logs the receipt and can synchronize automatically with other company systems for materials management, such as MRP, ERP or WMS.

Switch from Freight Prepaid to Freight Collect

Shipping freight prepaid, a common business practice, invites poor performance and even possible abuse. The penalty of poor performance by the carrier, late deliveries, damaged freight, and missed appointments, falls most heavily on the customer, which receives the material. The benefit of lower freight rates accrues primarily to the supplier, which pays the freight bill. So the supplier gets the benefit of prepaid freight, while the customer suffers any penalties. Worse yet, since the freight expense is bundled into the final invoice, it is hidden and uncontrollable, at least from the customer's point-of-view. The solution is to convert inbound shipments from freight-prepaid to freight-collect.

To implement the conversion from freight-prepaid to freight-collect HA takes control of every aspect of shipment for PFE. HA selects a small number of nationwide carriers, negotiates rates based on HA's larger total volume, and schedules pick-ups and deliveries. The result is a consistent shipping process, which meets PFE's pick-up and delivery requirements and provides traceability for every order.

Implementation

Since beginning the implementation in November, HA has customized the Inbound Gateway to meet PFE's requirements and formats for all the PFE documents and reports generated by Inbound Gateway. While the Inbound Gateway System has a suite of standard documents and reports, customization for each customer's specific needs is critical to rapid adoption by the team. The team gathered a complete set of PFE documents, customized the Inbound Gateway, and then reviewed the customized documents against the company documents to assure that all critical fields had been captured.

To develop a freight model, PFE supplied shipment histories of its top suppliers to HA for analysis. Together HA and PFE selected 12 suppliers for the pilot program. For each of these suppliers HA calculated a freight allowance for each shipment. PFE then informed the supplier of the upcoming switch from freight prepaid to freight collect, and asked the supplier to provide actual freight expenses as a basis for the price reduction. PFE compared the freight expenses provided by the suppliers to the allowances calculated by HA as a basis for negotiating the price reduction with each supplier. In some cases the two amounts were very close, so the negotiation was easy and swift. In situations where the supplier's estimate of freight expense was much lower than the HA calculation, more freight bills were analyzed to resolve the discrepancy. It is no surprise that the suppliers' estimates for freight expenses were often lower than the allowance calculated by HA. However, analysis of actual freight bills usually resolved these issues.

The suppliers' freight expenses ranged from 3% to 15%, with the average between 5.5% - 6%. These rates were 1-2% less than rates provided by the national carriers taking over the business. Part of this difference is due to the underestimate of freight costs by the suppliers, but part is also attributable to their selection of lowest-cost, lowest-quality carriers. So, while PFE expects to see immediate improvement in freight delivery, the short-term may also see a small increase in freight costs. However, this should be balanced quickly by inventory reductions and improvements in warehouse operations. In the long-term, HA and PFE expect to reap the benefits of optimization and LTL consolidation.

Key Learning:

Estimate suppliers' freight costs before negotiating for discounts when converting from freight-prepaid to freight-collect. Verify with actual freight bills.

Conclusion

HA and PFE expect to begin the pilot program soon with the 12 pilot suppliers, delivering the first purchase orders through the Inbound Gateway System in February. After two months of pilot operation and fine-tuning, in June HA will expand the program to the remaining 73 primary suppliers. Look for updates on this project every six months or so, documenting PFE's progress in gaining control of its supply chain – converting supply from a hidden, uncontrollable cost to a visible, manageable expense and a competitive advantage for the company.



HA Logistics provides supply chain management solutions – execution and visibility of when, where, and how product is shipped and delivered, from dock-to-dock. Established in 1984, HA Logistics has led the way in providing seamless transportation and supply chain services for high-growth companies. With the corporate office in Pleasanton, California and key locations across the U.S., the Company has grown over 15% annually by providing a one-stop source for all supply chain needs. HA Logistics has a proven management team with over 50 years of executive management experience in all areas of supply chain management. Our dedicated staff of supply chain experts provides 24/7 support for our clients.

We convert inbound supply from an external, hidden (and unmanageable) cost to an internal, visible, controllable competitive asset.

Corporate Office: 5175 Johnson Drive, Pleasanton, CA 94588
(925) 899-7622 Phone, (925) 251-9333 Fax, tmundell@halogistics.com, www.halogistics.com

Offices in Atlanta, Chicago, Dallas, Houston, Los Angeles,
Sacramento, San Diego, San Francisco, St. Louis and Seattle.