

CASE STUDY for the MScBA Students Course in Procurement and SCM

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THE BUSINESS CASE

The COMPANY: a FMCG Multinational Company

Market: MEA Region 

Logistics/Distribution: External Provider – Distribution to Retailers

Full Service Distributor: an International 4PL Logistics Distributor with significant business share in the Region

Business OBJECTIVE: *Generate Revenues in the MEA Region (White Space) creating a Win-Win business Model (Company & External Distributor)*

THE STUDENT'S LEARNING OBJECTIVE

Learning OBJECTIVE: from a practical case study, understand how an improved and coordinated SCM initiative can be the **key Enabler for a successful business plan execution.**

Major drivers for success:

1. Financial performance improvement of partners
- cash and cost (Logistics design and enhancement)
2. Increase service level performance and boost sales (Demand Mgmt and Whse)
3. Synchronize the operations to gain responsiveness, flexibility while keeping Inventories low (communication and IT)

SWOT ANALYSIS

STRENGTHS

- Recognized Brand WW
- Quality of Products
- Few sku's already on sale
- Premium Price products
- Well established local Distributor

WEAKNESSES

- Access to Region – political constraints, past embargo, etc
- High Work.Capital (Transit stock; DPO of 4PL low; DSO based on terms)
- No Local MFG Plants for the Company
- Cost To Serve high; long transportation Leadtime

THREATS

- Competitors can gain advantage by time to Market
- Market penetration from Competition (local players, media mgmt)
- Product registration needed due to high political volatility
- Gross Margin constraints

OPPORTUNITIES

- Establish a growing presence
- Gain Market leadership in a Multi Billion white space
 - Reduce and optimize the CTS (Cost To Serve) and C2C
 - Gain distribution (stores presence / Placement, channel mgmt)

ECONOMIC AND DEMOGRAPHIC PERSPECTIVE: some figures

POPULATION

Egypt	93MM
Iran	80 MM
Turkey	79 MM
Saudi Arabia	32 MM



Saudi Arabia

Iran

Female population:

30-40

2,500K (male 3,000K)

9,000 K (male 7,000 K)

40-50

1,800K (male 2,200K)

5,000 K (male 5,000 K)

50-55

600K (male 700K)

2,000 K (male 2,000 K)

Average age

29 years old

Inflation

decreasing trend

GDP

increasing trend

High Potential White Space – 30 USD/capite brings to several Billion Revenues

Source: adapted from UN reporting/CIA World Factbook

BUSINESS KPI's

CURRENT SITUATION

FUTURE SITUATION - 2020

The Company

- | | | |
|---------|-------------|-------------|
| • SALES | 100 (index) | 120 (index) |
| • DSO | 30 days | zero |

Distributor

- | | | |
|-----------------------|-----------------|----------------------------------|
| • CTS | 50% of Sell Out | < 40% (delta Sell Out – Sell In) |
| • Gross Profit (ROI) | 8-10% | 15% |
| • OOS | 15% | 1% max |
| • DIO (in Transit+DC) | 180 days | < 110 days |
| • DISTR.LOG. COST | 20% of CTS | 5-10% |

Shared KPI's

- | | | |
|---------------------|----------------------------|---|
| • C2C Distrib. | > 120 days | 80 days (-50%) |
| • (DSO+DIO-DPO) | | |
| • Log. Mode/Carrier | Cost efficiency | TCO (key Procurement area) |
| • Incoterms | FOB Origin Freight collect | FOB Origin Freight prepaid charged back |
| • Carbon Footprint | not yet consistent | Reduce CO2 emissions by 30% |

INCOTERMS - FOB

Table 10-2

Key Responsibilities Under FOB and Freight Payment Terms

FOB TERM AND FREIGHT PAYMENT RESPONSIBILITY	WHO OWNS GOODS IN TRANSIT?	WHO HANDLES FREIGHT CLAIMS?	WHO SELECTS AND PAYS CARRIER?	WHO ULTIMATELY BEARS FREIGHT COSTS?	BEST USED WHEN ____ HAS GREATER INFLUENCE WITH CARRIER
FOB Origin, Freight Collect	Buyer	Buyer	Buyer	Buyer	Buyer
FOB Origin, Freight Prepaid	Buyer	Buyer	Seller	Seller	Seller
FOB Origin, Freight Prepaid & Charged Back	Buyer	Buyer	Seller	Buyer The seller adds freight costs to goods invoice.	Seller
FOB Destination, Freight Prepaid	Seller	Seller	Seller	Seller	Seller
FOB Destination, Freight Collect	Seller	Seller	Buyer	Buyer	Buyer
FOB Destination, Freight Collect & Allowed	Seller	Seller	Buyer	Seller The buyer deducts freight cost from goods payment.	Buyer

MAJOR AREAS OF IMPROVEMENT

An Improvement Strategy, based on Cost Reduction, able to generate Cash and improve Service was needed, if wanting to continue the market Share expansion.

1. LEADTIME (transportation):

- In Transit Stock
- Forecast Accuracy
- Service Level
- Risk of Bullwhip Effect

2. WORKING CAPITAL

- CASH TO CASH Cycle Time
- ROI
- LOW PROFITABILITY

..... **others to identify**

MAJOR PROJECTS to implement

a) VSM End To End – E2E

- Objective:
 - Eliminate wastes
 - Calculate the SC Cycle Time
 - Identify Synchronization (avoid undesired and expensive excess stocks)

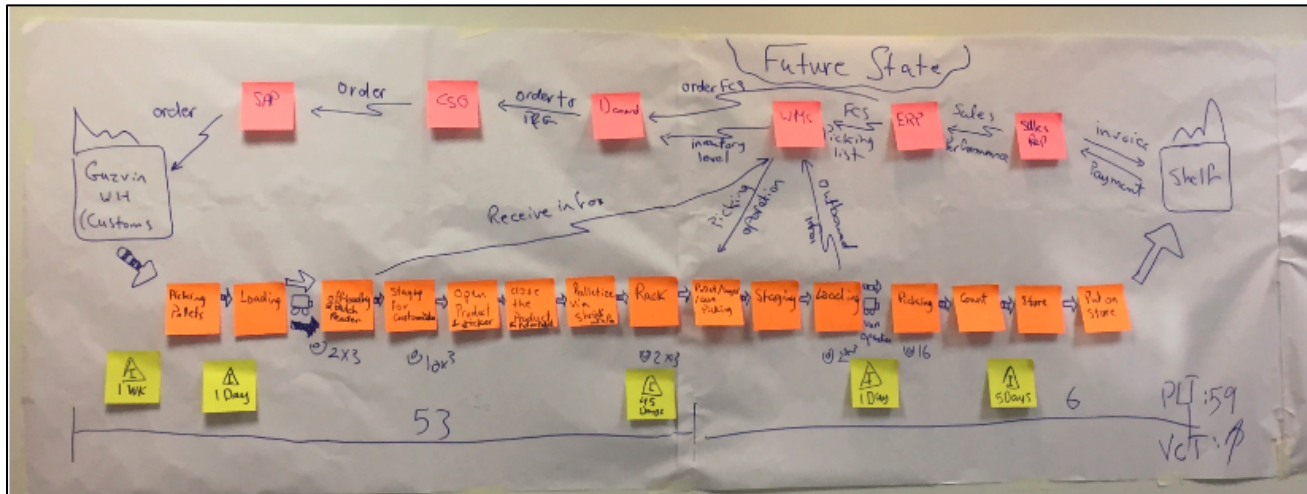
b) TRANSPORTATION PATTERN, MODE and CARRIER

<u>Current State</u>		<u>Future State (3 YRS)</u>	<u>Ideal State</u>
• Product Touches	45	< 20	6-8
• DIO @ Local DC	90 days	60 days	6 days
• OOS	15%	1 %	0% (* sku)
• VFR (vehicle fill rate)	20%	70%	95%
• IRA (invent.record acc.)	75%	98%	100%

→ Generate 3-5 MM USD savings; 15-20 MM Revenues
Speed of execution – Benefits TO BE SHARED Between Partners

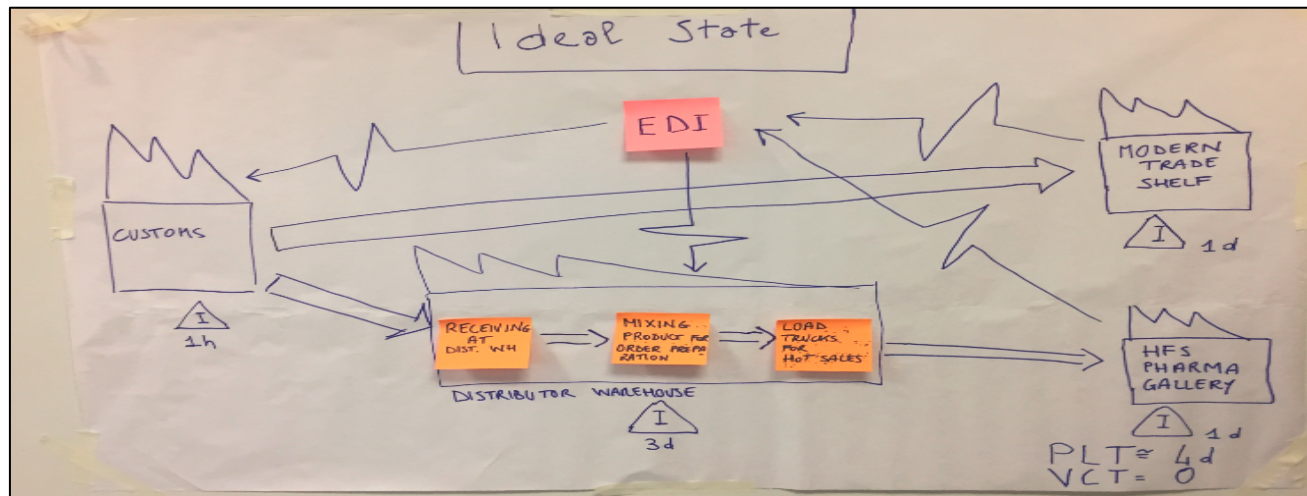
VSM Evolution – Future → Ideal State

Future state



- OMS in place
- Vehicles load optimization
- Simplified Whse operations

Ideal state



- The distributor owns a private Whse
- EDI connection
- Assortment and customer service
- Loading

ISSUES DISCOVERY

Example on a Personal Cleansing category (Distributor Only):

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Disconnects Analysis:

- ✓ Whse Utilisation at 40-50% vs Benchmark 85% due to poor Accumulation (for deliveries)
- ✓ No enough Allocation (match stock with orders)
- ✓ Poor stock replenishment (among whse's)
- ✓ Shipments by Sea Container -> Long Transit time despite low variable costs; reliability disadvantage, routing not optimized
- ✓ Custom's clearance difficulties
- ✓ Veichle fill rate low
- ✓ Orders optimization / commercial agreements
- ✓ No FIFO
- ✓

VISION (Year 2020)

- EDI Mgmt
- Synchronization i.e. 5-7 Days of Inventory
- 0% OOS star sku's
- Full products Portfolio

Improvement opportunity examples

Warehouse work processes and design

Empty racks and product stored in the corridors.
Storage utilization can be improved with right
warehousing work processes



Warehouse space not fully utilized.
Storage capacity can be increased with
appropriate racking design

Opportunity Examples

Demand planning and branch replenishment **work processes**



Root causing:

- Reduced forecast collaboration and visibility
- No regular communication and info sharing among stakeholders
- Lack of sell out data at retailers

Opportunity Examples

Transportation and Customization work processes

The vans are not fully utilized (20%) and the order preparation at branch is not cost effective due to high number of touches. Also, the cartoons are not filled, with additional impact on transportation cost.



Picking operations to be Shelf Organized

Customization and postponement



Opportunity to Sort materials and Assembly To Order

VFR example

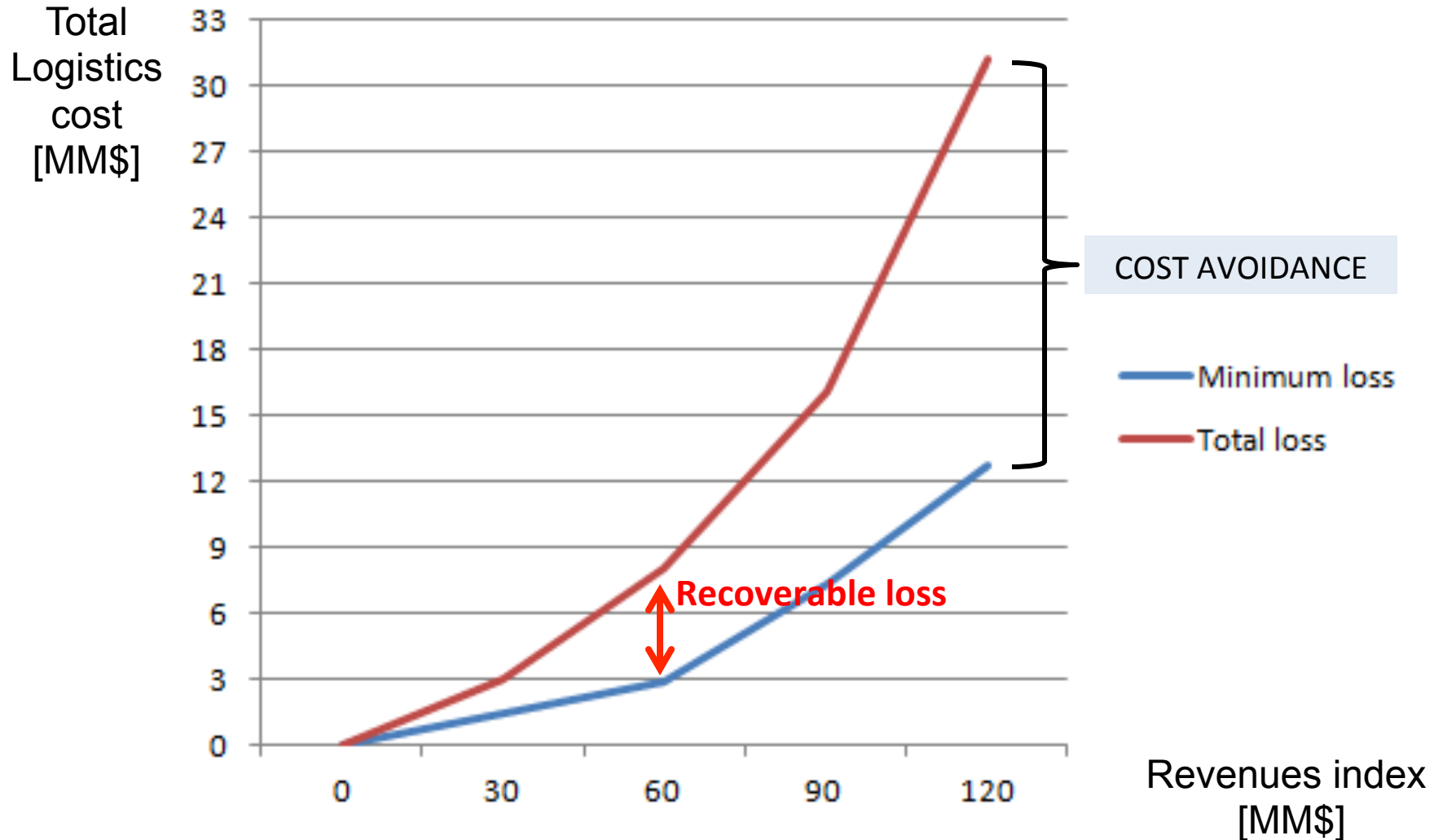


Install flow racks and aisle coding

APPROVED PROJECTS FROM VSM

	Project	Expected Benefit	KPI
C O S T	Redesign transportation strategy and load mgmt	Improve VFR Vehicle Fill Rate	Cost
	Whse optimization- space, racks, accumulation, sortation. WMS	Picking timing; orders fill rate	Cost
	Demurrage reduction	LT reduction	Cost Respons.
	Whse replenishment local DC's – Stock allocation by sku	Optimise the sku's inventory and availability at DC's	Cost Service
	Custom's clearance operations	Smooth clearance, save LT	Cost Respons.
C A S H			
	Redesign transportation mode NE/EE (Europe) to MEA – from Water to Intermodal	Reduce Cash Impact DIO	Cash
	Implement a Forecasting Tool – Assign demand planners	Improve ForecastAccuracy Reduce SS and improve Service	Cash Service
S H	Redesign a combined organisation – Assign a SC Director at Distributor, not just Transport and Logistics	Holistic mgmt of resources, improved Procurement activities, cash flow mgmt	All

1. COSTS - Recoverable Loss



Transportation Mode/Carrier Redesign



- 40 Days
(can be also
50-60 days on MEA
other destinations)

Old Set Up: 90 days (IDO and Cash Impact) – Water Only

New Set Up: 50 days (IDO and Cash Impact) - Intermodal

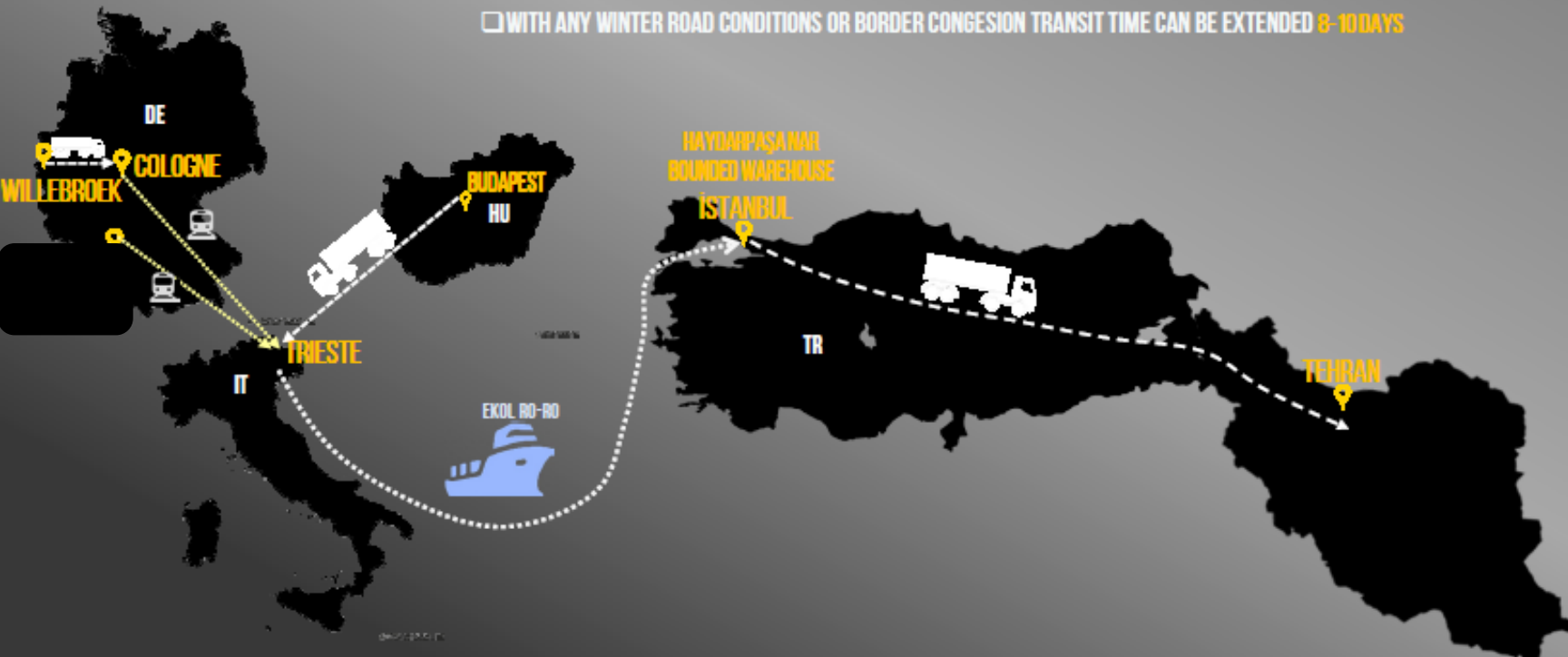
NewSet Up – Example to Iran region

IRAN TRANSPORT CONCEPT

□ 48 HOURS FOR FORMALITIES IN NAR BOUNDED WAREHOUSE

□ ISTANBUL → TEHRAN **7 DAYS** TRANSIT TIME WITHOUT ANY WINTER ROAD CONDITIONS OR BORDER CONGESTION

□ WITH ANY WINTER ROAD CONDITIONS OR BORDER CONGESION TRANSIT TIME CAN BE EXTENDED **8-10 DAYS**



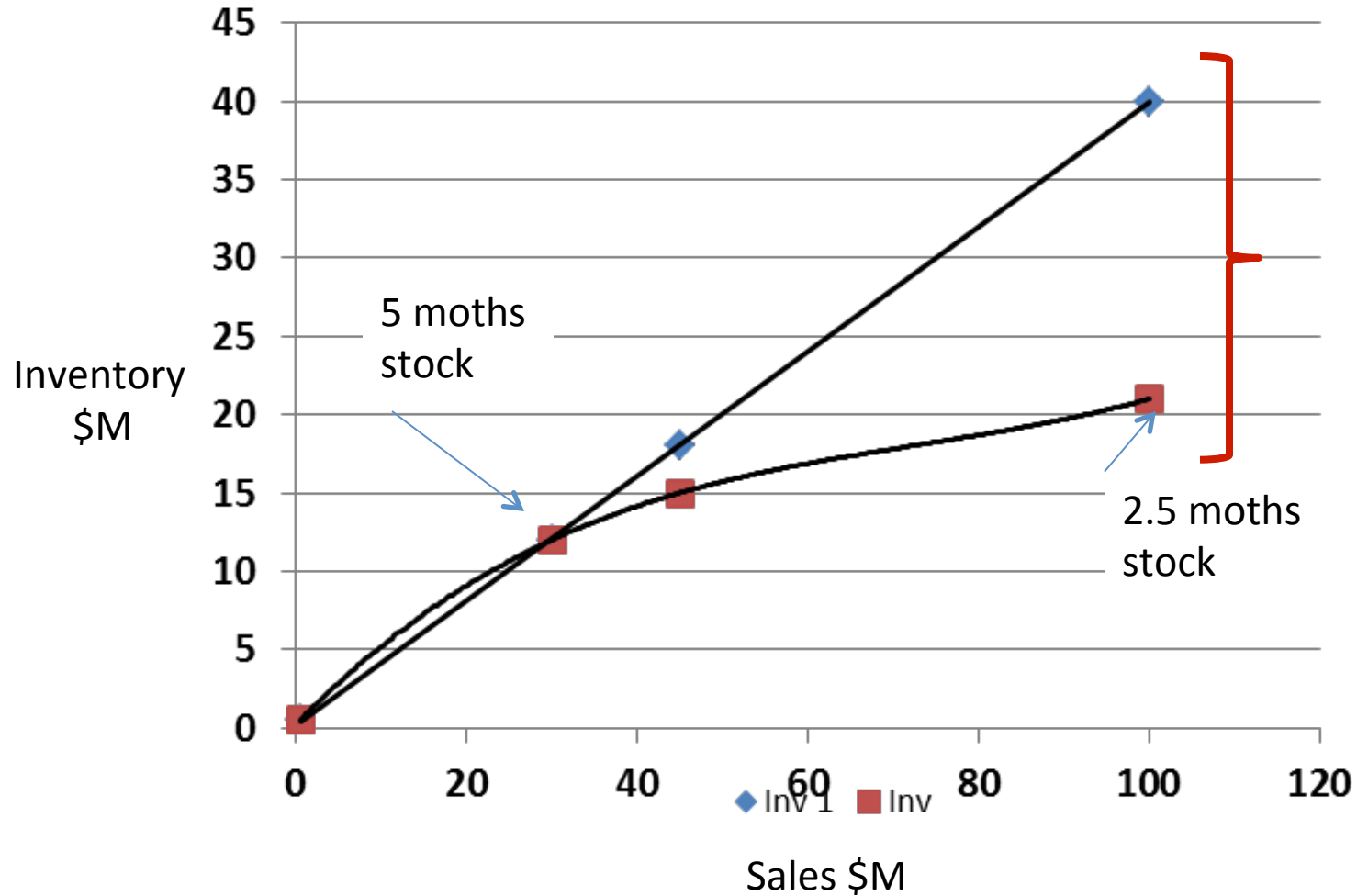
1. Rail + Truck – FTL and «Piggy Back» container
2. Water Roll On - Roll Off Vessels (large ferries)
3. Road transport max 7-8 days up to 10 days in winter/rainy

Leadtime reduction - DIO Reduction

(analyzed on average destinations at EAU)

Old mapping		Current	
Action	# of calendar days	Action	# of calendar days
Order placement	-14	Order placement	-14
Loading at DC	0	Loading at DC	0
Transfert to port	7	Transit Time	14
Shipment to Central DC	29	Custom Clearance	10
re-export to port of Emirates	7	Arrival in Tehran Bouran's warehouse	1
Dubai to DC	2	Stickering at warehouse	10
Customs clearance	28		
Local region shipments	2		
Stickering at warehouse	5		
Total (from loading)	80	Total (from loading)	30
Average stock at Distributor in days	100	Average stock at Distributor in days	55
Total stock in Supply Chain in days	180	Total stock in Supply Chain in days	85
Total stock in Supply Chain in months	6.0	Total stock in Supply Chain in months	3.2

2. CASH – Distributor Cash Flow



Distributor Net Results – Win Win results


COSTS – The Overall VSM Projects will bring a Logistic Cost Reduction of 40% in 3 years (Future State) and 60% vs Ideal State.

→ Increase in Profits (P&L)

CASH – The new Mode of Transportation (from Water to Intermodal) will cut the Leadtimes and reduce the DIO.

This generates a virtuous circle with improved forecast, better service, reduced inventories overall and reduce credit terms.

→ Reduce C2C, generate positive Cash (Cash Flow)

- Investors happy to place money in the enterprise
- Improved WACC and reduced Risks for Investors 
- Lean and smooth Supply Chain increasing Sales and Market share

NEXT / FUTURE STEPS

- Build distributor capability on SC Continuous Improvement
 - Synchronization: move from monthly to weekly order cycle
 - Digitalization plan; ERP/EDI, WMS, TMS, replenishment / routing planning
 - Local sourcing on product categories belonging to A and B Classification (20% of Portfolio).
 - Adapt SC to the evolution of Retail Market (Retail and B2C)
- Move from International Sourcing (CEE, North Europe) to Global Sourcing (local Plants)
- Consolidate the Organization, create a common Team on site
 - New local Legal Entity

KEY LEARNINGS

- Supply Chain as a strong enabler to succeed on Market share and growth
- Cash Mgmt is a Supply Chain strong discipline (Logistics; SC Planning; Procurement), not just Finance driven
- Collaboration, integration and visibility are paramount for synchronization and success (Development Chain concept) and for the customer satisfaction

Key players / Stakeholder skills

- ✓ Early mgmt, engagement, influence the overall masterplan
- ✓ Early line up definition – Mktg, Sales, SC combined effort
- ✓ Sourcing is critical (capacity mgmt, Leadtimes, costs)
- ✓ Detailed and shared analysis of problems root causes; solutions are identified in a collaborative manner

Before...

COMPANY

- SALES
- MKTG
- F&A
- PROCUREMENT
- SC PLANNING
- TRANSPORTATION

DISTRIBUTOR

Two separate organisations

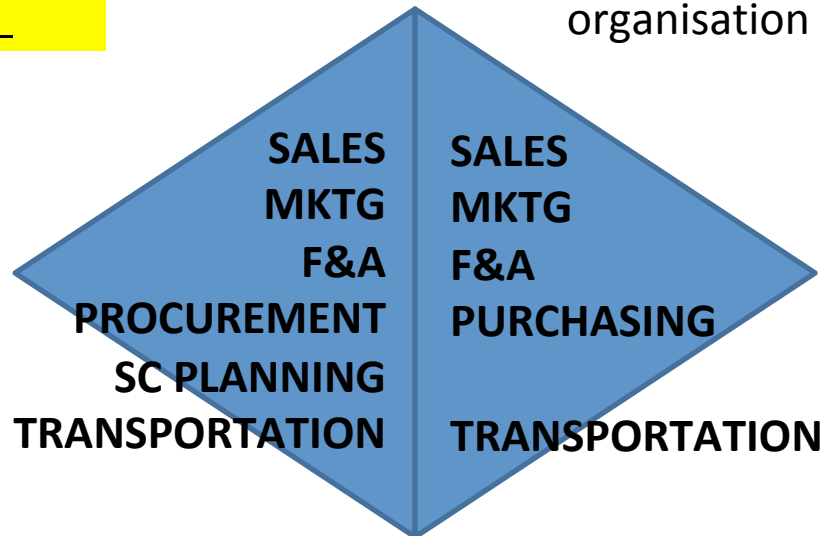
BUYER

BUYER

- SALES
- MKTG
- F&A
- PURCHASING
- TRANSPORTATION

After...

One collaborative organisation



- Volumes growth
- Mktg campaigns, Placement, Channel Mgmt
- Forecast based on Sell Out data
- Transportation Mode selection/optimisation
- Negotiate fares based on volumes
- Shared organisation

KEY LEARNINGS cont.ed

Behaviors

- Personal accountability
- Courageous Leadership
- Externally focused and Customer oriented
- Team mix and composition
- Perfect execution and focus to results
- Passion to deliver and look for details.
- SCM technical mastery, analytical approach, full understanding of economics/financial levers
 - C2C
 - Leadtimes
 - Demand Mgmt
 - Logistics – Modes, Carriers, stds, Incoterms...
 - International Sourcing vs Global Sourcing implications

These are the traits of succesful Supply Chain Leaders

Q & A

MEA REGION

Turkey	South Africa	Tunisia	
Iraq	Tanzania	Rwanda	Swaziland
Saudi Arabia	Kenya	South Sudan	Djibouti
Yemen	Algeria	Benin	Réunion
Syria	Uganda	Somalia	Comoros
United Arab Emirates	Sudan	Burundi	Western Sahara
Israel	Morocco	Togo	Cape Verde
Jordan	Ghana	Libya	Mayotte
Palestine	Mozambique	Sierra Leone	São Tomé and Príncipe
Lebanon	Ivory Coast	Central African Republic	Seychelles
Oman	Madagascar	Eritrea	
Kuwait	Angola	Republic of the Congo	
Qatar	Cameroon	Liberia	
Bahrain	Niger	Mauritania	
Iran	Burkina Faso	Gabon	
Nigeria	Mali	Namibia	
Ethiopia	Malawi	Botswana	
Egypt	Zambia	Lesotho	
Democratic Republic of the Congo	Senegal	Equatorial Guinea	
	Zimbabwe	Gambia	
	Chad	Guinea-Bissau	
	Guinea	Mauritius	

