

CONSUMER GOODS

SECONDARY PACKAGING



CO-LOCATING CUSTOMIZATION AND DISTRIBUTION ACTIVITIES REDUCES COSTS, IMPROVES SERVICE AND QUALITY FOR CONSUMER PACKAGED GOODS GIANT

The shift in consumer spending patterns caused by the economic recession has been driving new retail strategies designed to address demand variability, increasing competition and margin pressures. These strategies in turn have challenged consumer packaged goods (CPG) manufacturers to find supply chain solutions that meet customer needs without incurring additional costs. One global CPG giant turned to Exel, part of DHL Supply Chain operating in the United States and Canada, to implement a secondary packaging solution that would reduce supply chain costs, and improve service and quality for its customers.

CUSTOMER CHALLENGE

Exel's customer opened a mega distribution center built to consolidate multiple warehouses in the Midwest. The busy, highly automated facility was managed by Exel. It also incorporated a customization operation, as the company's retail customers were increasingly turning to packaging customization as one method of differentiating their brands and appealing to consumer demands for value.

Customer demand was increasing significantly for the packaging assortments, special sizes, and other product customization to support in-store promotions and brand differentiation on the shelf. In addition, the CPG manufacturer's retail customers wanted shorter order lead times to make better use of point-of-sale data and reduce inventory carrying costs.

In the past, products from the nearby manufacturing plant had been shipped out for secondary packaging to a third-party provider. As customization volume and requirements increased, the customer realized that locating packaging

Customer Challenge

- Meet increasing retailer demands for product customization
- Streamline customization process
- Reduce costs
- Improve quality

DHL Supply Chain Solution

- Secondary packaging co-located with distribution activities
- Distribution and customization integrated under one provider

Customer Benefits

- Reduced transportation costs
- Reduced inventory levels
- Reduced transportation moves
- Increased resource utilization
- Increased labor flexibility
- Increased packaging quality

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activities within the distribution center would lead to cost-saving efficiencies. In considering such a change, the customer's objectives were to:

- Meet increasing retailer demands for customization
- Streamline the customization process to operate efficiently within the distribution center
- Improve quality
- Reduce costs

It was clear the cost and service benefits of co-locating secondary packaging and distribution would be significant. Exel was able to demonstrate to its customer the substantial cost and service benefits it would realize with a single supplier managing both distribution and secondary packaging in one location.

"Exel had been successfully providing distribution center management for the customer throughout North America for more than 25 years," said Chad Herr, Exel's Director of Operations for the Consumer Industry. "With our strong secondary packaging capability and ability to help them fully realize the additional synergies of a single-source provider, we were able to demonstrate to the customer that we were the right choice to manage secondary packaging in the distribution center."

DHL SUPPLY CHAIN SOLUTION

As proposed, the solution consisted of locating the secondary packaging within the distribution center and integrating all associated activities under Exel's management. Exel worked with the customer to secure the equipment necessary for the secondary packaging operation. Exel is responsible for managing and integrating all aspects of the distribution center and customization operations.

Typical packaging customizations include combining up to eight SKUs (Stock Keeping Units) on a single pallet in an assortment unique to one retailer, applying neck hangers, heat wrapping smaller items to a larger product, re-boxing product from the plant into customized boxes, and shrink wrapping several products into a promotional bundle. Exel also manages a complex promotional schedule, with each retailer running promotions on a six-month basis and independent of one another.

In addition, Exel manages labor scheduling for all packaging and distribution activities, and empowered its line leaders to move labor as needed to adapt to activity peaks and valleys. The customer's quality process is integrated into customization operations, increasing visibility into packaging quality. To ensure all possible process efficiencies are realized, Power Packaging, an Exel business unit dedicated to food and beverage manufacturing and packaging, consults on the secondary packaging operation and suggests improvements where needed.

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As the sole provider, Exel is the customer's single point of contact for managing the entire product supply chain to meet retailer requirements. It also means one provider is responsible for site quality, safety and security, ensuring uniform standards and processes.

CUSTOMER BENEFITS

Savings have resulted from locating secondary packaging within the distribution center by eliminating or reducing:

- Transportation costs of shipping products to and from a remote co-packer
- Real estate costs of multiple facilities (improved asset utilization)
- Redundancy in overheads/support structures
- Product handling between locations
- Product damage from incremental product handling

In addition, pack-to-order capability has been improved by taking days out of the process associated with shuttles from the plant. This reduces inventory levels, improves inventory flexibility by keeping product in regular (non-customized) SKU formats longer, and increases customer satisfaction because of reduced order lead times. With fewer transportation moves, the secondary packaging operation also supports the customer's sustainability goals.

Because Exel manages both the distribution center and secondary packaging, labor is easily flexed between these activities, which improves resource utilization. Additional labor synergies resulting from the single-source relationship include:

- Increased depth of back-up and cross-trained associates in all functions
- Reduced total headcount needed to support the business
- Increased pool of resources available on-site provides additional surge capability
- Reduced overtime dependencies and associated cost

"Our customer realized significant cost and service benefits by integrating distribution and customization activities with a single provider in a co-located environment."

Dennis Brookins,
Exel's Senior Director, Customer Development,
for the Consumer Industry

For further information

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