

Supply Chain Consolidation: When Less Is More...

Introduction

The brand name of Nestlé needs no introduction in the food and drink sector. In the UK, the business has traditionally operated from three separate distribution sites; Bardon in Leicestershire; Scunthorpe in the North East and York in the North of the country.

In light of various contracts approaching review and the end of lease agreements at two of the sites, Nestlé decided to take the opportunity to review its warehousing and distribution strategy in the UK, turning to Total Logistics to undertake a thorough and independent assessment of its current and future supply chain needs.

Ian Hill, head of group distribution and operations at Nestlé UK, explains the background to the project: "For many reasons we had reached a point when we were faced with various options on our three-site strategy. The time was right to bring in a fresh pair of eyes to review our distribution network. With our complex mix of dry and wet goods, including water, coffee, confectionery and mix of perishable goods, we wanted to explore what options were there for us – and Total Logistics' team was the obvious choice given our longstanding relationship with the consultancy."

The challenge

The main task facing the Nestlé team and Total Logistics' consultants was to develop a meaningful model by which to really understand the pros and cons of every option that was available. This already complex scenario was made even more challenging due to the diverse and expansive nature of Nestlé's product range and large number of end-markets.

While both the Bardon and Scunthorpe sites handled foodstuffs including water, confectionery, cereals and coffee, the latter also coped with the huge seasonal demands for confectionery products during periods such as Easter and Christmas. To add to the complex picture, Scunthorpe also used different technologies to service the international export market, dispatching product to Europe and further afield via deepsea routes.

Whereas Scunthorpe was characterised by high density, drive-in racking, with temperature and humidity controls, Bardon and York used automated high bay storage units that did not require such sophisticated environmental management.

Peter Roan, partner at Total Logistics, said: “This project was complex from a supply chain modelling perspective, as it not only included an analysis of in-bound and outbound flows, transport costs, road links and inventory issues, but also risk and service factors created by a twin site strategy.

“Time was also a big factor here, given the fact that we needed to make recommendations and support the implementation to ensure the client was ready and able to satisfy the crucial peak demand period of Easter. In short we had a window of just six weeks to completely review and make recommendations on Nestlé’s UK distribution network strategy.”

The approach

Total Logistics set to work developing an assessment tool to look at the impact of putting different business streams into the same facility. For example, the benefit of keeping seasonal and export confectionery streams in the same facility as they have largely counter cyclical storage needs, was a major consideration.

Another key consideration was quality assurance, as a large number of confectionery items had to be stored at a temperature of 8^oc and 65 per cent relative humidity.

A further element to the assessment model included an analysis of transport and warehousing costs, including inbound and outbound flows. Particular attention was paid to the potential synergies that could be obtained by combining different streams to increase drop size, thus reducing the number of road miles and journeys required.

In all, 16 different scenarios were developed, including all options based on the existing facilities and even other potential locations in the UK.

The results

In the final analysis, it was decided that a twin site solution provided the greatest cost saving to Nestlé, while enabling it to improve flexibility and delivery performance to supermarkets and other key retailers in the UK and further afield. Although its delivery performance is already at 99.4 per cent, Nestlé is confident that concentration on the Bardon site would allow the already high customer service levels to be improved.

Due to its central location and existing potential for development, it was decided that the Bardon site was the obvious choice to centralise supply chain operations. However, this decision has meant the closure of the Scunthorpe site, with a major investment programme in place at Bardon, which will increase its pallet capacity from 50,000 to 110,000.

While there have inevitably been some job losses due to the closure of the Scunthorpe site, it is expected that up to 40 new jobs will be created initially at the Bardon site, with the possibility of more to follow.

Considerable investment has now gone into the Bardon site to enable it to handle the array of Nestlé food and drink products – including Kit-Kats, Smarties and Nescafé. In addition to this focus, the area of risk management has been key to the team's thinking as the site is updated and fully commissioned.

Peter Roan said: "While our recommendation to consolidate much of Nestlé's food and drink distribution under one roof has reduced the overall cost of distribution, the move has enabled the company to combine its business stream and product supply chains to create far greater flexibility.

"Nestlé now has a much more robust logistics operation that will enable it to meet the growing need to deliver more frequent, lower volume drops to retailers. As well as supporting the Nestlé team through this crucial period, we were also able to work with them on the risk management issues raised by a twin site strategy, holding a risk assessment workshop."

Accordingly, Nestlé has worked hard to ensure the design of the new Bardon site takes issues such as fire protection and security very seriously. The communications infrastructure at the site has also been a key consideration during the implementation phase that saw the successful commissioning of the site in May 2009.

Ian Hill is delighted with the final outcome of the project. He said: "Given the tight timescale and the perishable nature of our products, there was potentially a lot at stake by migrating many of our famous brands to the Bardon site. The Total Logistics team added significantly to the process, offering strategic insights and practical support along the way."