

Total Logistics - Rebalancing The Supply Chain For Nestlé

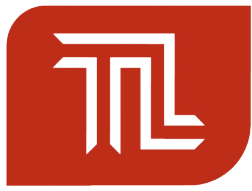
Nestlé is Switzerland's biggest company, founded by Henri Nestlé in 1867. Today it is capitalised at over £59 billion and is also the world's largest consumer food company, employing 253,000 people worldwide in the production of more than 15,000 different products. It manufactures and markets some of the best-known international FMCG food and beverage brands in the world – Nescafé, KitKat, Quality Street, Buitoni, Cheerios and Shredded Wheat to name just a few. Total Logistics has been helping Nestlé UK manage its supply chain for over eight years.



Nestlé's offices in York

Making sure that the right goods get to the right UK multiples, wholesalers and retail outlets at the right time every time is a huge logistical undertaking and is underpinned by Nestlé's two biggest UK distribution hubs at York and Bardon in Leicestershire. When Nestlé UK decided to sell off a significant part of its food business to Premier Foods in 2002 – covering such brands as Branston Pickle, Sunpat, Sarsons Vinegar and Rowntree Jellies – it was faced by the simultaneous problems of under and over-utilisation at the two main distribution hubs. Total Logistics was appointed to assess the options and specify the strategic solution – dubbed 'Project Shirt' - for the rebalancing of Nestlé's UK supply chain.

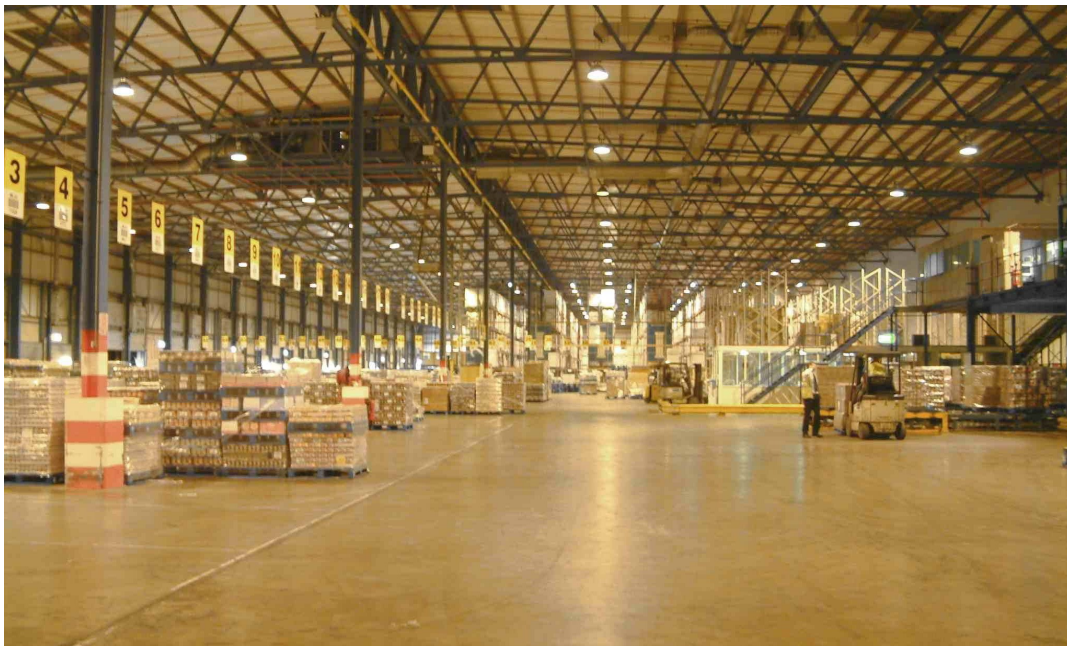




TOTAL LOGISTICS

the complete supply chain consultancy

Whereas Nestlé's York centre is operated in-house, the 456,000 sq.ft Bardon centre is managed on behalf of Nestlé by TDG, one of the UK's largest supply chain solutions providers with 8,000 employees and a 1,600-strong vehicle fleet. York handles Nestlé's confectionery business and Bardon concentrates on the rest of the Nestlé product portfolio. This was principally the Food and Beverage range where TDG was assembling deliveries for Nestlé from the Scottish Highlands to the Channel Islands - plus all sites in between utilising a network of eight trans-shipment centres around the country.



Bardon Marshalling Bay

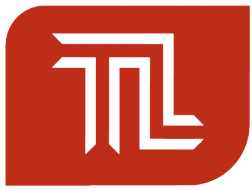
Absorbing Business Change

While the York facility was already being over-utilised on the confectionery side of the business, Nestlé's food products represented a major proportion of the volumes passing through Bardon. This inevitably meant that the sale of the company's food business to Premier Foods would create the opposite problem for the Bardon facility: that of under-utilisation.

Bardon largely mirrors the York operation in terms of the basic warehousing process of goods-in; product storage strategy and zoning; high bay management; low bay management; order processing; RDT-based case picking; and loading/marshalling process. However, Bardon is a bigger operation, with 14 unmanned cranes, 57,000 High Bay pallet locations on 14-level aisles, 6,000 pallet locations in the Manual Bay, 20 picking trucks and a range of other trucks.

Having spare capacity provided an opportunity to assess how customers were served and this was the principal driver for bringing in Total Logistics to help with the re-engineering of Nestlé's supply chain.





But it wasn't the only one: there was a risk management issue. Nestlé no longer felt it appropriate to hold entire product stocks under one roof and a solution had to be found for the strategic storage and distribution of major lines – like coffee or the hugely popular KitKat – that protected them but without compromising access and delivery efficiency. In addition, a further objective of the project for Nestlé was the establishment of a single customer service centre in York.

There was also a clear need to respond to the impact of the EU Working Time Directive: the travel time for lorries delivering from York into the south of England is long. Without an alternative solution that reduced delivery lead times, adhering to the Directive would have almost certainly meant cost additions.

Re-engineering the Supply Chain

Ian Hill is Nestlé's director of supply chain services and eBusiness: "The sale of our Foods Division was the ideal opportunity to build in a far greater level of flexibility and responsiveness into our national logistics network. We spent a lot of time listening to our customers and they wanted to see a higher frequency of deliveries but with less volume – in effect giving them a much more effective JIT-based method of operation.

"We had already been working successfully with Total Logistics for many years and their appreciation of the strategic issues affecting our business made them the ideal choice for mapping out the options for us," he added.

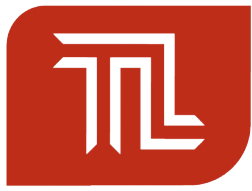
The initial study involved establishing the flows of product of the remaining business streams and modelling the costs of alternative warehousing and transport options. One of the possible options considered was to mitigate the under-utilisation impact of the sale of the food division by reconfiguring the existing network from two product-specific national distribution centres to two regional distribution centres - each carrying the full range of products. Effectively, this would merge the confectionery deliveries with those of the remaining food and beverage products.

Having established the right strategy for change, Total Logistics then undertook a more detailed analysis of this option and the operational implications of providing an improved service to Nestlé's customers.

Switching to Composite Palletisation

As Hill says: "The secondary analysis gave us clear options from which to operate combined deliveries, including the right methods for stock deployment at York and Bardonia. They quickly identified the changes that needed to be made to the warehouses and transport system in order to secure





improvements in customer service, optimised warehouse utilisation, faster response times, combined ordering and an on-tap capability for more frequent deliveries.”

Once the right model had been developed by Total Logistics and Hill's in-house team, work on its implementation began. The York and Bardon hubs would need to be united closely the across systems, people, processes and transportation. This involved accurate co-ordination between Nestlé, TDG at Bardon and also covered the AUTOSTORE warehouse management system (WMS) running all product movements at both sites. All of which would need to fit hand in glove with Nestlé's SAP enterprise resource planning (ERP) system located at the company's Croydon headquarters – plus the new supply chain had to work within the parameters of Nestlé's UK manufacturing operations.

With major manufacturing centres at York, Halifax, Castleford, Fawdon, Tutbury, Hayes and Dalston, Nestlé generates about 70 per cent of UK demand from UK centres with the balancing 30 per cent coming from overseas or being re-imported following export for finishing.

Feeling the Benefit

Throughout 2003, the necessary changes to warehouse configurations, supporting systems and processes were put into place with the first combined deliveries starting in September 2003. The full roll-out of the revised supply chain to Nestlé's major multiple, wholesale and retail customer base took place successfully over the following months and into 2004 and has delivered many critical business benefits – for both Nestlé and its customers.

Hill picks up the story again: “With Total Logistics' help, we have for the first time been able to operate composite pallet loads for the whole of the UK - combining confectionery and beverages through two vehicle fleets and two distribution hubs. We have been able to maintain our cost base and run smaller delivery volumes more frequently without increasing costs.

“The customer response has been very favourable: they are receiving an improved level of service that is inherently more flexible while we have been able to decrease our fleet size which has a positive environmental impact. We have created the single customer centre in York we sought - there we have centralised the control of all of our day-to-day operational planning. Lead times are shorter, order throughput is increased and we are now operating a supply chain with seven day ordering and 24/7 delivery. Importantly, we have been able to absorb the stipulations of the EU Working Time Directive without creating extra costs for us or our customers,” finishes Hill.

