

Profile Number 3

DISTRIBUTION SERVICES OF AMERICA, INC.

A regional third party logistics provider has built a reputation on the innovative way it designs, implements and manages a wide range of customized logistics solutions – including a new consolidated ordering program.

DSA/Foxboro: 80-Year Veteran

Distribution Services of America, Inc. (DSA) – headquartered in Foxboro, MA – is a veteran of more than 80 years as a logistics leader.

DSA is a full-service third party logistics provider that develops logistical programs for both the distribution and the manufacturing communities. Mark Slattery, Vice President of Sales and Marketing and Suzanne Miklos, President of the Franklin division, were interviewed for this profile.

Logistics Comes into Its Own

The food industry is witnessing a period of phenomenal change, Mr. Slattery said. “Logistics itself is becoming much more important today. People are starting to understand it. Today logistics has become one of the three major components of a business strategy. That wasn’t always the case. Often logistics was almost an afterthought, almost considered a cleanup program for sales/product production.”

He added that with the current trend of high velocity movement and inventory reductions, every case is now more important. The industry was unprepared for the Efficient Consumer Response (ECR) movement in the early 1990s, he said. “The rush to reduce inventories and increase product turns was put into place without regard to logistical coordination/transportation cost impacts,” he pointed out. “If a distributing customer (retailer, wholesaler, etc.) decided to double inventory turns, plans were not usually in place on how to physically handle the resulting increase in order velocity, or how to address the increased costs of transportation inherent in the creation of smaller, more frequent orders.”

Consolidation

DSA has been facing the changing marketplace for years and has been practicing consolidation since 1963. At that time, the company successfully consolidated more than 90 percent of its LTL shipments.

“As the industry changes and becomes more of a pull industry – driven by receiving customers – orders become more frequent and smaller,” Slattery continued. “Consequently, we have an increase in smaller orders and an increase in transportation, and that drives up costs.”

In answer to these additional costs, DSA has refined its long-standing consolidation programs to reduce expenditures and untangle the logjams in the industry.

The company joined the Joint Committee on Efficient Consumer Response (ECR) in 1994 and began to create programs to streamline ordering and the movement of goods in the supply chain.

DSA developed two programs at that time – the B.E.S.T. Program (to be discussed later in this profile) and its new multi-vendor consolidation program.

Multi-Vendor Consolidation Ordering Program

In launching its consolidated ordering program, DSA partners with a leading East Coast grocery retail chain (Chain A) and with manufacturers currently using the DSA facility (See the Nabisco profile.) and a food broker (Food Enterprises, a division of Merkert Enterprise, Inc.)

The purpose of the program is to increase turns, reduce lead-time, eliminate overs/shorts/damages, add savings to both the vendor and the retailers and reduce inventory in the supply chain.

Chain A uses a demand forecasting system, which clusters five or six mid-size vendors together in a program that combines aspects of EFR’s logistical initiatives of shared warehousing and distribution, coordinated transportation and consolidation.

Getting the program operational took longer than expected – two years.

In the order flow process for the consolidation ordering program, DSA:

- Receives multiple vendor purchase orders from Chain A via fax. (it can also receive in EDI)
- Ensures that sufficient manufacturer product is in-house to fill the order. If not, DSA calls to get delivery.
- Finds out, based on requested delivery date, when the receiver wants to pick up the order, using its own transportation, at the DSA facility.
- Processes order to Dispatch, which tells Client A's trucking division when the order will be available for pickup.
- Sends order to the warehouse, where it is picked and readied for shipment.

For more specific details on the program's origins, see the profile of Retail Chain A.

Program Benefits

The multi-vendor consolidation program has been successful. Since 1995, participating manufacturers have saved more than 40 percent of LTL rates.

Chain A also has benefited. It has reduced inventory and lead times. It has been able to control the flow of LTL into its facilities and now enjoys more planned and on-time arrivals. By using its demand forecasting system, the retailer is able to tie together its produce flow to determine where it enters the distribution system.

According to DSA, one disappointment has occurred in the program – it has not attracted as many new vendors as expected. However, the company is optimistic and views the program as a major stepping stone in its path to use demand planning and forecasting the future.

One of the reasons for the program's success, according to DSA officials, is the up-front investment in communications and expectations-sharing by all the partners at the beginning of the project.

"Today's customers are demanding new ways of doing business that are presenting great challenges," Mr. Slattery said. "As customers drive logistics initiatives, the burden to eliminate costs cannot be transferred to the manufacturers. Taking advantage of the expertise of a third party and sharing costs and savings both offer a solution for all parties involved."

He stressed the importance of determining, up-front, an equitable sharing of these savings.

Mr. Slattery pointed out that the program means that the retailer was not buying in the amounts it had been. Rather, the retailer is allocated inventory dollars over a longer timed period, which can actually be a sales enhancement – not a sales diminishment – program. The retailer’s cash flow is improved when it pays less in inventory allotment.

Consolidation of a Different Breed

Consolidation once meant that orders sitting around were pooled, put on a truck and shipped – not necessarily driven by the receiver. What did not fit into the truck got trapped on the dock when truckloads weighted out or cubed out.

“The clear difference today is that it is a pull program with the receiver very much involved in the process flow,” DSA President Suzanne Miklos said. “In the old consolidations, you didn’t have manufacturers and retailers stepping up to the plate, willing to try something new and generating excitement in the industry.”

Program’s Weights and Cubes

Shipments now are on a weight-predicated system. As customers are added to the consolidation clusters, however, DSA expects to take advantage of both weight and cube in truckload configurations.

Mr. Slattery said cube will become more important in future shipments in the industry as well, especially in foodservice areas.

BE.S.T. Program/Consolidation Part II

The second DSA consolidation effort is its B.E.S.T. program, designed to cope with the inefficiencies of the current smaller, more frequent orders. By preparing the freight in full pallet quantities or at least in tier minimums, the program also cuts overs/shorts/damages and reduces loading and unloading times.

The B.E.S.T. program is a coordination of how product is purchased, assembled, picked and received. It was developed three years before the consolidation program. DSA has done a great deal of work with the retail community on distribution efficiencies, but it was not until 1991 that it formally launched B.E.S.T. A customer-focused efficiency program, B.E.S.T. seeks to improve the physical flow of distribution to cut activity costs, to reduce actual distribution costs and to offer cost savings via consolidation.

Orders are made in full tiers whenever possible, which enables DSA to segregate product to be item-specific. Orders are picked in full tiers and customized to the receiver's rack height, enabling one person to unload and put away what once was a two-person job.

The B.E.S.T. program is raping substantial returns:

- Reductions in unloading time at some facilities of more than 65 percent – in one case, 79 percent – all due to the way the freight is prepared.
- Faster receiving of freight, because receivers know the freight has been specially prepared and take these trucks first, as preferred customized deliveries.
- Reduction of 65 percent in overs/shorts/damages
- Decrease in put-away time by 23 percent overall.

Examples: One foodservice account traditionally took six hours to unload, and now with B.E.S.T., the task is performed in one to one-and-one-half hours.

"B.E.S.T. is the coordination of the actual freight delivery systems – the physical handling of goods," Mr. Slattery said. "If we have to handle, let's do it at our own facility and not at the receiver's loading dock."

Shared Warehousing/Distribution

DSA is shared warehousing and distribution, according to its officials. Its Foxboro facility, for example, is three-quarters of a mile around and contains products from more than 70 manufacturers.

This giant product pool allows distributors to pull in one truck and have access to 70 vendors, thereby cutting costs. A large pool of inventory across multiple vendors is available to distributors that allows them to reduce their own inventory and, at the same time, take advantage of truckload strategies and thus reduce costs.

Manufacturers – especially small and mid-size – can take advantage of other manufacturers' volumes and synergies, using these to develop programs like full truckloads. Since DSA's transportation division, T.R.I., is also a freight-forwarding provider and contracts with many receiver carriers as part of the regular DSA fleet, manufacturers have the added benefits of an always-on-time delivery and the availability of consolidation programs. (On-time delivery is guaranteed, since contracted carriers are building their own loads.)

DSA currently is developing a program with a large discount retailer and an area manufacturer that gives an order turnaround of three days from order placement to delivery. The company hopes to expand this program, called the Fast System, to other manufacturers in the near future.

Mr. Slattery said that with the current increase in the foodservice segment of the grocery business, his firm is debating whether to make foodservice a separate entity in its shared warehousing and distribution operations.

Cross Docking

The increase in food service volume – which has a different set of practices in distribution than traditional dry grocery – will trigger several changes in the business, according to Ms. Miklos. (For example, temperature controls and food safety requirements, plus extremely short shelf life.)

“Only two or three years ago, we were looking at 400,000 to 500,000 square foot buildings,” she said. “Now with the inventory reductions, it's going to be freight on trucks. We won't have large spaces any more. The key is how you manage the whole ordering process flow so you can take more inventory out of the system. That becomes critical in the food industry, especially in view of the increasing demands for freshness.”

The need for speed, agility, freshness and less inventory creates a climate for cross docking, which DSA has been doing for years. They cross dock a wide spectrum of products but fewer in the food industry than they would like.

DSA partnered with a general retail customer in a cross-docking program in which different goods – ranging from electronics to hair spray, from pots and pans to crackers – came in overnight on 80 to 100 trucks on varying formats (pallets, slip sheets, and floor-loaded).

DSA had to receive the goods, break them down by style, color, sizes, etc. The goods were then joined by garments that arrived on hangers and were separated, tagged and boxed. The multi-vendor products were cross docked and assembled into store-ready pallets or split pallets going out to 34 different stores in 40 to 50 different trucks. Time of the whole operation from receiving the first truck to the last outbound truck's departure: 10 hours.

DSA currently is working with Chain A, its partner in a consolidated ordering consolidation program, to develop a store-ready pallet program. This is envisioned as a cross docking operating wherein Chain A's order will be picked in a "wave" format to be cross-docked through its DCs and a pallet will be sent to each store.

DSA's Coordinated Transportation

DSA puts together several unique programs in the coordinated transportation area. It ties its B.E.S.T. Program into its own transportation program, which is operated under the aegis of Trans Resources, Inc., its ICC freight-forwarding company.

"One of our key roles as a transportation provider is to help manufacturers cope with the increase in transportation costs while at the same time helping distributors in controlling the inefficiencies you get with increased traffic flows," Mr. Slattery said.

DSA's cost-savings transportation programs include:

- The consolidated ordering program mentioned earlier
- A pre-loading LTL drop-box program that enables receivers to receive product without being present. (This is pre-loaded LTL freight on trailers.)
- Boxcar program, a nationwide freight forward service that ties rail freight and 30-day free storage into existing logistics systems. (DSA used 267 rail cars in a recent month and plans to integrate the program into its transportation menu of services).

Future Technology and Innovations

The two DSA executives have several programs that they hope to implement in the beginning of the 21st century.

CPFR – DSA believes continuous planning, forecasting and replenishment (CPFR) programs have a key role to play in Future logistical programs. A third-party provider such as DSA can provide the high level of coordination needed between the collaborating retailer and manufacturer in an effort to bring forecasting plans and product replenishment into

synch. Both DSA officials believe CPFR will go a tremendous distance in lowering inventory levels in the food business.

Store-Level Pallets – DSA stresses the importance of developing information that enables a company to align consumption or demand forecasting to production – and to deliver the result on a store-ready pallet.

EDI and ASNs – DSA believes that getting ASNs (advance ship notice/manifest) and EDI up and running in the food industry is important. One of the company's major frustrations is the lack of technology – especially EDI – in many retailers, foodservice operator and carrier operations.

Systems and Measurements - DSA uses its technology systems to monitor productivity in-house and evaluate job functions. It also is folding a gain-sharing incentive program into these evaluation programs.

Loading Diagrams - DSA recently implemented a program that places loading diagrams on the back of trucks. DSA e-mails copies of the customers to enable them to review an order before it gets to their back door.

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