

PSC Business Performance Case Study



Using (the Right) Metrics to Lower Distribution Costs

The Problem – Identifying where to trim distribution costs

A middle-market manufacturer, wanted to shift their business model from manufacturing to distribution management. With multiple manufacturing locations in the United States that supplied one domestic distribution center and one in Canada, they conducted analysis using available metrics.

After completing the initial phase of their evaluation, they soon realized that the results pointed to a specific call for action that was “just not right.” They sensed that the benchmarks alone were not the answer to improving their day-to-day operations.

The Analysis – Discovering misleading metrics

Using Total Distribution Cost per MPQ (Minimum Purchase Quantity) as their guiding metric, the Client observed that the Canadian distribution center was operating 60% more efficiently than their U.S. counterpart. This posed the question – do you remodel that U.S. facility after the one in Canada or do you take some other action? PSC was engaged to help with the answer.

On closer examination, PSC determined that the operating cost of the Canadian distribution center was actually twice as much, raising the question of why since both operations were in the same geography. As it turned out, the metric was flawed – it did not take into account that the U.S. operation was contributing to more than half of the actual cost for Canada. The root cause was that material was being moved twice. First from the manufacturing facilities to the U.S. distribution center, and then from the U.S. distribution center to the one in Canadian. The Canadian operation was only being charged for the second leg.

Once this was understood, the focus was shifted to a review of the distribution process on the whole which ultimately lead to re-examination at a higher level. Should the manufacturers in the U.S. ship directly to the Canadian distribution center, or should the Canadian center be closed and shipments to Canada be made directly from the U.S. facility? The potential savings was estimated to be as much as \$600,000 annually.

The Solution – Creating a “Single Definition of the Metrics”

While the specific issue of distribution costs was addressed, the real problem – misleading metrics, was yet to be resolved. The client was using metrics at multiple levels throughout their operations to make strategic and operation decisions, so there was no telling how many other decisions were being made on poorly defined metrics.

There was no quick fix. The client asked PSC to conduct a more detailed study to determine “the single definition of the metric” for the entire distribution process. The client wanted a more in depth understanding of *what* was being measured, *where* the information was coming from (source data), and *how* the metric was being defined.

The result was the development of 18 additional key productivity indicators (KPI's) that identified areas for immediate improvement and opportunities for further examination – all with a cost reducing potential of over \$2,000,000 per year.

The Technology

- Balanced Scorecard
- Supply Chain Operations Reference Model (SCOR)

The Benefits

- Significant reduction in distribution costs
- Better customer service
- Quicker delivery times



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PSC Group, LLC is an information-technology and professional services consulting firm that specializes in business process architecture and back-end integration. We have extensive experience and expertise in architectural design and Business Performance Management, Dashboards, and Reporting.

When it comes to information management and control of business processes, PSC can provide you with a competitive advantage through the smart application of technology.

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