

TUNED UP

Priming Auto Logistics for Peak Performance

As new challenges drive the need for leaner and faster automotive parts logistics, suppliers ask 3PLs to take the wheel.

by John Edwards

Rising fuel prices, increasing competition, snowballing government regulations, and higher labor and component costs have combined to challenge automaker profitability to an extent unparalleled within the past three decades. As a result, vehicle parts manufacturers are scrambling to trim costs and create supply chain efficiencies whenever and wherever they can.

Automotive original equipment manufacturers (OEMs) source components from an array of external suppliers, both domestic and global. Until recently, an automaker's biggest logistics concern was having enough parts on hand to keep production humming at an optimum level. But this once-simple goal has become far more complex, with vehicle manufacturers striving to reduce inventory levels by procuring parts just-in-time. "The whole industry has moved to this model," says Adrian Gonzalez, an analyst at Dedham, Mass.-based ARC Advisory Group, a research and advisory firm.

Just-in-time shipments reduce the number of parts that sit idly in inventory, tie up cash, and consume expensive warehouse space. "Today, automakers might have, at the most, two hours of inventory at the production line," Gonzalez says. "Then trucks deliver replenishment parts every hour or two."

As automakers speed and streamline the logistics process, they're also broadening their supply base, bringing in more vendors to achieve the lowest price and fastest delivery times. "Automakers deal with thousands of parts and components suppliers," Gonzalez says. "Managing all that, and keeping track of information, can be extremely complex."

It isn't only automakers that are under pressure to speed the supply chain. Suppliers that deal with vehicle manufacturers' complex and demanding logistics requirements face their own challenges. "Our delivery windows are shrinking," notes John Begg, global logistics director for Key Safety Systems (KSS), an automotive safety equipment supplier based in Sterling Heights, Mich.

3PLs SOFTEN THE BLOW

Positioned between struggling automakers and their frenzied suppliers, third-party logistics providers (3PLs) can help cushion the impact of just-in-time scheduling and deliveries. With extensive transportation resources, scheduling and management capabilities, and logistics expertise, 3PLs can take the pressure off suppliers while ensuring automotive OEMs source a reliable flow of parts.

"It makes sense to let automakers design and manufacture the cars, and let logistics companies handle the freight," Gonzalez says.

Key Safety Systems supplies automakers with many of the safety components they need to satisfy government regulatory agencies. The company produces air bags, seat belts, and the electronic components that control automotive safety systems. From its headquarters, KSS oversees operations in 32 locations



Sanden provides components such as air conditioning compressors to major automotive OEMs and aftermarket distributors. A 3PL partnership keeps things cool.

around the world, including 17 manufacturing sites. The firm supplies all the major auto manufacturers, including the North American "Big Three"—Ford, Chrysler, and General Motors. It also serves the automotive aftermarket.

Just-in-time deliveries have taken automotive supply chain efficiencies to new heights. "There have been continuous improvements in cycle time and cutting waste from the system. Companies are running extremely lean," Begg says.

But a system that's designed to operate like clockwork can leave both the customer and supplier in a panic when the logistics gears suddenly freeze. "The system allows little give for unplanned situations—such as a storm that strands a container on the high seas. The system doesn't have enough elasticity to absorb unforeseen bumps," Begg notes.

To help supply chain partners handle and overcome these "bumps," Begg believes it is important to run a tight supply chain with plenty of built-in visibility. "Automakers have to know where their components are at all times. They have to be as proactive as possible," he says.

A just-in-time supply chain disruption can cost an automaker as much as \$10,000 per minute if its production lines run out of components and grind to a halt. "Suppliers simply can't shut them down," says Begg.

3PLs play a pivotal role in helping suppliers keep the parts pipeline

flowing at full capacity and providing immediate status reports on supply chain stress points and bottlenecks. KSS relies on Miami-based Ryder System to help navigate just-in-time demands.

"Ryder manages all supply chain functions for our entire network in North America and Europe," Begg says.

Ryder began working with KSS in March 2006, notes Tom Kretschmer, Ryder's director of customer logistics. The 3PL plays a hands-on role in the company's daily logistics operations—managing pickups and

deliveries, verifying critical events during transit, and communicating exceptions so KSS can initiate contingency plans if necessary.

Besides providing visibility and making sure that parts arrive on schedule, 3PLs can also help suppliers ship items that pose a special safety challenge. One concern for KSS is the "inflator"—the explosive component that fires an airbag during an accident. Most transportation regulators classify inflators as a hazardous material. "Many companies and carriers simply won't deal with inflators, but Ryder has access to a large carrier base that can handle it," Begg says.

3PLs can also help component suppliers shave costs. For example, Ryder helped KSS slash spend by 10 percent during the first nine months of their relationship. "The savings came from procurement, logistics engineering, and exports conversion," Kretschmer says.

Ryder has also introduced supply chain visibility, which helps everyone in KSS's supply chain breathe easier. "We had no visibility tools before partnering with Ryder," Begg says. "Now we know where material is at all times, so we can cut fluff out of the business."

CHILLING OUT

For automotive air conditioning components supplier Sanden International USA, running a fast and nimble logistics operation has proven

continues on page 50

3PLs IN THE AFTERMARKET

OEMs aren't the only companies shaking up the automotive supply chain. Top aftermarket industry players, including repair chains, collision shops, and parts retailers demand that suppliers deliver parts quickly, as needed.

Consumers are partially responsible for forcing aftermarket players to speed up shipments. "Consumers have become so reliant on their vehicles that they expect same-day repairs," notes Mary-Beth Kellenberger, senior automotive analyst at Frost & Sullivan, a technology research firm located in Palo Alto, Calif.

As they do in the primary automotive market, 3PLs help aftermarket suppliers meet the demands created by tight delivery schedules. Aftermarket suppliers primarily count on 3PLs to provide relief from scheduling burdens as well as other factors that might slow down, or even halt, deliveries. "3PLs help suppliers guarantee that a product will hit the store on a particular date at a particular time," Kellenberger says.

After scheduling support, crossdocking is the most requested value-added service 3PLs provide to automotive aftermarket suppliers. Crossdocking enables companies to rapidly consolidate shipments, create economies of scale in outbound transportation, and reduce shipping costs without sacrificing just-in-time service.

Besides accommodating customer demands for fast and accurate shipments, aftermarket suppliers must also pay close attention to shipping costs. "It's a very competitive business," says Paul Schlanger, president of Dial-A-Clutch, a wholesale transmission parts distributor located in Delray Beach, Fla.

Dial-A-Clutch carries kits and components from all the major clutch manufacturers that serve vehicle OEMs. "Our main business is selling to professional installers, transmission shops, and automotive repair stores," Schlanger says. "They want quality products, not parts you can pick up at low-end retailers."

Since its inception, Dial-A-Clutch has been a regional distributor because geographic scope limits its range of next-business-day shipments. "Our customers need overnight delivery because consumers want their vehicles back as soon as possible," Schlanger notes. "Expedited deliveries aren't an option because they are cost-prohibitive."

To expand its coverage range without raising shipping costs, Schlanger decided that he needed 3PL support. Although the company already operates a local warehouse, Schlanger did not want to sink capital into building a chain of regional facilities.

One 3PL Dial-A-Clutch contracted with was St. Louis-based TAGG Logistics. The provider focuses on meeting the supply chain needs of small to medium-sized businesses. "We serve a national customer base of manufacturers, wholesalers, and retailers," says Gary Patterson, TAGG's president. "Working with us allows Dial-A-Clutch to expand geographically without making a capital investment."

TAGG provides the storage and transportation resources Dial-A-Clutch needs, handling next-day deliveries at cost levels well below expedited carriers. "We sell quick and flexible service," Patterson says. TAGG gives Dial-A-Clutch the ability to serve customers in the Midwest. The parts distributor also has a partnership with an Atlanta-based 3PL that extends its reach into the Southeast.

An important value-added service that TAGG provides to Dial-A-Clutch is part stamping. The process is designed to give valuable components accurate identification, which facilitates tracking and helps prevent shipment shrinkage. If Dial-A-Clutch needs an identifier on a part, and it isn't done where it's manufactured, TAGG arranges to have the component stamped or etched with identification data. "Part stamping is more durable than simply putting on a label," Patterson says.

TAGG also assembles orders, performs inventory counts, and provides quality checks on outgoing products. "If a certain item presents a quality problem, we can do a random sampling of all relevant outgoing components to check quality levels," he adds.

Schlanger has no complaints about his relationship with TAGG. "It's a better alternative than a traditional expansion strategy - opening new facilities and hiring labor," he says.

GOOD IN A CLUTCH. 3PLs can help automotive aftermarket suppliers meet demands created by tight delivery schedules.



continued from page 48

to be both a business and a way to stay one step ahead of the competition. "It's hard to imagine at our current level of efficiency without the help of a 3PL," says the logistics supervisor for the U.S.-based subsidiary of Sanden, the world's largest automotive air conditioning component supplier.

Sanden's U.S. unit serves segments of the automotive air conditioning industry, with clients including major automotive OEMs such as GM, Chrysler, and Ford. "Our current sales include pass-through from other production locations in Japan," Wolfe notes.

Like other automotive manufacturers, Sanden works with customers that demand short, frequent windows. "It is critical for these customers' required to guard against line stoppages," says.

Sanden's lead time is typically 10 days for items manufactured from its Wylie facility. "We have to maintain a niche in the market, however, we have been able to, the same day, offering customer delivery in many cases," says.

SEAMLESS INTEGRATION

Wolfe believes that working with a 3PL is vital for meeting customer delivery directives. Sanden didn't use a 3PL until about one year ago, when mounting customer demands made outside logistics support imperative. As it began looking for a suitable partner, the company realized it needed a service provider that could not only supply necessary services, but also share a similar business philosophy.

"A 3PL must be an extension of your organization. We approached this endeavor with a goal toward creating seamless integration," Wolfe says.

After investigating several logistics service providers, Sanden selected Evans

SEAMLESS INTEGRATION

Wolfe believes that working with a 3PL is vital for meeting customer delivery directives. Sanden didn't use a 3PL until about one year ago, when mounting customer demands made outside logistics support imperative. As it began looking for a suitable partner, the company realized it needed a service provider that could not only supply necessary services, but also share a similar business philosophy.

"A 3PL must be an extension of your organization. We approached this endeavor with a goal toward creating seamless integration," Wolfe says.

After investigating several logistics service providers, Sanden selected Evans Distribution Systems, Malvindale, Mich., based on its extensive experience serving automotive industry customers and suppliers, as well as its ability to integrate operations with Sanden's existing logistics infrastructure.

Evans has served the automotive industry since 1929, and now owns a pair of warehousing and distribution companies, three truckload carriers, a temporary staffing agency, and a transportation management company, Evans Logistics.

"Evans helps Sanden across a variety of different areas," says Leslie Ajlouny, vice president of business development for Evans Logistics.

Evans helps Sanden cope with customer demands for increasingly detailed tracking information, which is used to coordinate production across different product lines and provide a paper trail

in the event of a manufacturing failure or recall.

"A supplier often has to track serial numbers, production dates, and engineering release levels, among other information," Wolfe says. Tracking becomes exceedingly complex, and potentially confusing, whenever a shipment transfer is handled on anything other than a one-to-one basis.

"For example, we might need to take 420 air compressors out of a corrugated box and repack them into pallets of 120 each," Wolfe explains. "Doing this creates multiple lot numbers and serial numbers."

All this information then has to be transferred from the original packing to the new labels that are applied to the returnable packaging. "It takes a high level of information management technology to make sure all the important data is recorded," he adds.

Evans also helps Sanden manage labor-intensive repacking jobs—which often arise when parts arrive from overseas—by doing the work itself. "We repack parts into returnable dunnage, which the automotive industry requires to cut costs," says Ajlouny.

During the repacking process, Evans conducts a visual inspection of parts and tests or gauges components if necessary. "Sometimes a quality issue arises, for example," Ajlouny says. "We conduct different levels of inspection, depending on the supplier and the situation."

"Evans helps Sanden across a variety of different areas," says Leslie Ajlouny, vice president of business development for Evans Logistics.

Evans helps Sanden cope with customer demands for increasingly detailed tracking information, which is used to coordinate production across different product lines and provide a paper trail in the event of a manufacturing failure or recall.

"A supplier often has to track serial numbers, production dates, and engineering release levels, among other information," Wolfe says. Tracking

returnable packaging. "It takes a high level of information management technology to make sure all the important data is recorded," he adds.

Evans also helps Sanden manage labor-intensive repacking jobs—which often arise when parts arrive from overseas—by doing the work itself. "We repack parts into returnable dunnage, which the automotive industry requires to cut costs," says Ajlouny.

During the repacking process, Evans conducts a visual inspection of parts and tests or gauges components if necessary. "Sometimes a quality issue arises,

for example," Aljouny says. "We conduct different levels of inspection, depending on the supplier and the situation."

Traceability is another critical support service Evans provides to Sanden. "If a quality issue with a part arises, suppliers need to be able to trace exactly where it was delivered," Aljouny explains. If an issue crops up for Sanden, Evans can send a team to the OEM's plant to help sort and contain the problem. "Otherwise the plant would have to close while they wait for replacement parts," she adds.

GOING GLOBAL

While international vehicle manufacturers aggressively compete with Detroit's Big Three automakers, the domestic automotive industry is taking advantage of global manufacturing resources.

"Companies are turning to offshoring to control their costs," notes Steve Roche, director of automotive operations for Menlo Worldwide Logistics, San Mateo, Calif. "Most parts suppliers are playing in China, India, and South America. It's common to outsource manufacturing to these countries."

Menlo operates 90 locations in 17 countries across five continents: North America, Asia, Europe, South America, and Australia. This coverage allows it to track shipments from source to delivery.

"Our systems are set up to interface

with customs, providing complete end-to-end visibility," Roche says. "When a shipment is coming from China, we'll first see if it traveled from Shanghai to the

OEM suddenly moves production to a new country. Without third-party support, a supplier might face the expense of acquiring and organizing new warehouses and transportation connections. It's important for suppliers to be flexible, especially as offshoring activity migrates to emerging locations such as Mexico. "Non-asset companies can leave a region to move with their clients," Roche says.

A PARTNER, NOT A PROVIDER

Given the crucial role 3PLs play at all levels of the automotive supply chain, it's vital for suppliers to connect with a partner that can meet their needs. "Look for a partner, not a provider," recommends KSS's Begg.

When searching for outside help, KSS wanted a 3PL that could use its knowledge and insight to reshape KSS' logistics operations, then stand behind the new program.

"Someone who works for their dinner works harder than someone who receives a constant flow of income with no performance checks and balances," Begg notes.

All other considerations aside, it's crucial for a supplier to hook up with a 3PL that understands its organizational soul, advises

Wolfe: "Find a service provider that not only recognizes your commitment, but shares your goal to be the best in the marketplace."

PELICAN™

| SPEND ON | SAVE WITH |
|--|--|
|  <p style="color: green; font-weight: bold;">REPEAT COST EVERY CYCLE</p> |  <p style="color: green; font-weight: bold;">PAID FOR IN 2 CYCLES</p> |



If you're involved with Reverse Logistics you already know the name of the game is cutting costs and saving Money.

So consider the benefits of a Pelican Protector™ Case with a lifetime guarantee; one durable case that gives you an endless number of shipping legs and significantly reduces your packaging "cost-per-use" (when compared to expendable packaging). In addition, Pelican Cases are crushproof and waterproof so you protect your assets by eliminating shipping damage. And there are environmental benefits too as Pelican's multiple use cases reduce packaging disposal and its associated waste.

It's simple math: how many shipments of expendable packaging will pay for a Pelican case? When you add together the total costs of expendable packaging usage it's an easy decision."

To learn more, call us toll free at **866.823.3020** or visit us online at www.pelicanoem.com/ibl



23215 EARLY AVE., TORRANCE, CA 90505 • 866.823.3020 (TOLL FREE)
310.326.4700 • FAX 310.326.3311 • WWW.PELICANOEM.COM/IBL
All trademarks and logos displayed herein are registered and unregistered trademarks of Pelican Products, Inc. and others.



THE PELICAN UNCONDITIONAL LIFETIME GUARANTEE