



High-Tech

Contract Manufacturer Drives Down Costs, Increases Service Via Integrated VMI Capabilities

Kuehne + Nagel helps convert more than 85% of inventory to VMI, increasing annual inventory turns from 4 to 28

SITUATION

A leading global contract manufacturer, focused on delivering operational services to high-tech companies, needed to take advantage of vendor-managed inventory (VMI) postponement and optimal fulfillment solutions to stay competitive in its low-margin manufacturing marketplace. Its objective was to find ways to reduce inventory redundancy, improve customer responsiveness by reduced cycle times and simplify supplier management and procurement administration. The manufacturer also needed to augment existing infrastructure, while reducing investments in additional personnel, facilities and systems.

SOLUTION

Kuehne + Nagel, a leading provider of supply chain management solutions, was chosen to implement an VMI program for one of the manufacturer's U.S. facilities. Kuehne + Nagel undertook a detailed analysis of the customer's material acquisition, handling processes and systems. Initially, Kuehne + Nagel moved the inventory from the customer's manufacturing site into one its own distribution centers while implementing a Web-based demand-planning tool to provide suppliers with visibility to forecasts and inventory requirements to support production. Second, it implemented a supplier-management program that simplified the transition of inventory ownership from the manufacturer to the suppliers. In fact, transition of the initial group of key suppliers took just four months.

New material-handling processes also were introduced to improve product flow through manufacturing. Kuehne + Nagel used its supply logistics systems to provide Web-enabled visibility to suppliers, allowing them to review on-hand inventory. Inventory buffer quantities were calculated to trigger demand replenishment via an alarm code notifying the manufacturer and supplier. Using the manufacturer's forecast, it compares on-hand and in-transit quantities and matches them against the buffer level. It generates a supplier "status alert," if the calculation indicates that inventory will fall below agreed-upon levels.

Kuehne + Nagel also managed non-VMI product, comparing the product forecast against materials on hand. This further reduced the administrative burden on the company's procurement office.

Kuehne + Nagel provides the contract manufacturer with global visibility to inbound and out-bound freight – down to the part number and purchase order level – across the supply chain through the Kuehne + Nagel track-and-trace system. This visibility allows the customer to make commitments to manufacturing or customer fulfillment and increases customer responsiveness.

RESULTS

Working closely with the manufacturer and its suppliers, within 14 months of implementation Kuehne + Nagel:

- Converted more than 85 percent of inventory to VMI, dramatically increasing annual inventory turns from four to 28 and reducing material obsolescence, driving substantial increases on return on assets.
- Introduced improved operational procedures and visibility tools leading to staff levels reduced by 20 percent in material handling and 15 percent in administration, while improving customer responsiveness for schedule changes and forecast fluctuations.
- Delivered additional value-added services - de-trashing, product integration, inspection, component programming and returns management - that further reduced the manufacturing company's handling costs.

Because of the implementation's success, Kuehne + Nagel was selected to manage another of the company's dedicated fulfillment centers.

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