



Rheem Adopts Mass-Customization Strategy to Increase Water-Heater Market Share

Solution reduces inventory carrying costs by 10% by stocking only basic models that Kuehne + Nagel custom-configures

SITUATION

Rheem Manufacturing Co. is the first and last name in water heaters. But in the mid-1980s, Rheem looked for alternative ways to increase a relatively flat market share condition. At the time, Rheem shipped much of its commercial products directly from the factory to Rheem and Ruud distributors across the United States. These distribution customers began to demand shorter lead times for commercial equipment. In response to these new demands, Rheem needed to reevaluate its distribution strategy to provide faster response. Rheem also was interested in reducing its overall inventory and distribution costs.

SOLUTION

In 1990, Rheem began to establish a nationwide network of warehouses to meet demands for quick delivery in virtually any market in the U.S. Rheem tapped former Kuehne + Nagel subsidiary USCO Logistics, a Rheem warehousing partner since the early 1980s, as a key partner in this new national strategy. Today, Rheem uses Kuehne + Nagel's multi-client facilities in five states.

Rather than stock every SKU, Kuehne + Nagel facilities store just several basic model types that can be customized at the warehouse. Each facility is certified by Underwriters Laboratories to custom-configure each electric water heater by changing heating elements and the voltage and wattage to conform to the specific SKU ordered. This mass-customization strategy allows Rheem to significantly reduce its inventory. After configuring the product, Kuehne + Nagel then labels water heaters with the appropriate model and serial-number information, based on the customer order.

RESULTS

Since revamping its distribution strategy, Rheem has seen a steady improvement in market share. "An increase in product availability definitely has contributed to our market share improvement," says Rheem Commercial Market Manager David Hanning. "When a commercial water heater fails in a business or institution, the installing contractor needs the replacement water heater as soon as possible. Kuehne + Nagel's public warehouse network allows us to be in many different places with a consistent quality of service."

Kuehne + Nagel has helped Rheem:

- Reduce inventory carrying costs by 10% by stocking only basic models that can be custom-configured.
- Private-label units at the warehouse for specific customers and distribution channels.

"Most impressive about Kuehne + Nagel," says Ray Roldan, Rheem Physical Distribution Manager, "is the consistent level of responsiveness and personal service from distribution center staff at all locations. It's why we've been with them for years."

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