

REDUCTION OF TRANSACTION COSTS THROUGH PROCESS OPTIMIZATION

2005 COMPUTERWORLD HONORS CASE STUDY

MANUFACTURING

THE LARGEST PRIVATELY HELD, NATIONAL MANUFACTURER AND DISTRIBUTOR OF HEALTH CARE PRODUCTS IN THE UNITED STATES BROUGHT ITS SUPPLY CHAIN COMPONENTS TOGETHER WITH INFORMATION TECHNOLOGIES AS A BRIDGE TO KEEPING COSTS IN LINE WITH DOUBLE-DIGIT GROWTH WHILE STILL PROVIDING THE BEST SERVICE TO OUR ULTIMATE CUSTOMERS – THE PATIENTS. [20055241]



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SUMMARY

Healthcare Manufacturing and Distribution is a highly competitive market place and with Medline Industries double-digit sales growth over the last several years our mission remains the same, "provide quality products and cost containment solutions to health care providers while enhancing the quality of patient care". In order to accomplish this and remain competitive we needed to bring our supply chain components together with information technologies as a bridge to keeping our costs in line with this growth while still providing the service to our ultimate customers – the patients.

APPLICATION

Increasing service level to our customers while at the same time reducing our expenses across our supply chain, Medline Industries has been able to grow sales close to 2 billion in annual revenue while at the same time passing some of this savings on to the customer. We were able to build several applications that allowed our production planning teams the ability to see inventory levels Just In Time (JIT) to increase service levels, monitor Transportation expenses across the differing business models to drive cost reduction in freight % of sales and overall improvement in our warehouse labor efficiencies which allowed us to increase lines per man hour, improve accuracy levels and pay our most productive employees a better bonus. The main focus to date has been in the areas of Transportation and Warehouse Labor expense reduction as it relates to our diversity ion customers from Large Hospital groups who purchase in case and full pallet quantity to Nursing Homes and Home care who tend to purchase and deliver in smaller units of measure. Each business presents it's own set of challenges when it come to labor and transportation especially when both types of accounts are being serviced from the same distribution center.

BENEFITS

The major benefit of implementing this technology, beyond the financial ramification, was to empower the front line business managers, Vice Presidents and CFO with a system that gives them the ability to make informed decisions on a day-to-day basis. It has also streamlined the business process and actually changed the way work is performed along with providing audit tools to ensure ongoing efficiency and profitability. We have been able to look at our business in ways never before possible and have used this to streamline almost every aspect of our business from Inventory management, plant capacity, labor and overtime reduction to transportation efficiencies and a reduction in freight expense.

IMPORTANCE

The complexity and scope of this project could not have taken place with out several technologies working in concert. Our ability to assemble information from several disparate systems into meaningful and informative analysis outlining the root causes, impacts and process improvements of all factors and forces at work in our supply chain would not have been possible with out the Web enabled, self-service applications. This information has not only made our day to day to work different it has given us a foundation to really understand costs both in and outside the supply chain and focuses our efforts on the key expense reducing initiatives.

ORIGINALITY

I think this relates back to the multiple technologies working in harmony to produce a creative look at

the whole business process. While some of the technologies are revolutionary, such as the Radio Frequency devices in our WMS system, we are able to combine multiple systems into a pool of related information which can be drawn upon for answers to questions that span the full business cycle not just a one dimensional approach to a specific question. I also tend to think it's original in it's implementation methodology in that most companies start with high level KPI's to try and understand the details and we approached this from the detail level to understand the business process, make improvements early on in the process and then measure how well we are doing to the new standard and developed the KPI as true roll ups to the detailed business process at hand.

SUCCESS

The success of this project can be measured in several ways but best described by the results of the major objectives it set out to achieve. Not only have we changed the way our people perform their day-to-day functions, from the office person to the warehouse operator to the transportation coordinator, to the boardroom discussion with the accurate data, we have delivered a tool that will allow Medline to continue to grow and ensure we are operating as efficiently as possible in order to fulfill our mission statement.

My favorite success story is that of our Incentive Pay Program (IPP) for the warehouse operators. In essence, as Medline profits from increased productivity, and we want to share this with the employee's directly responsible for the work being performed.

This program in effect has merged two technologies and systems to bring to the every day warehouse operator a chance to make more money while at the same time increase our overall warehouse efficiency and accuracy. Medline is a true believer in competition as a motivator, and in a nutshell, we have created picking and shipping standards that are measured at the overall branch level and at the individual level. We use this information to set performance based scales for the employees to meet and exceed. For example, a particular branch may have a scale of 23 transactions per hour as a goal. If the employee exceeds this by x% they are paid an additional X%. If they exceed this by X+% they are given an even greater bonus. You can imagine the competition among 1400 employees in 27 distribution centers when we post the corporate results.

There are so many success stories we have been able to achieve that I will only briefly list them here: Overtime Reduction of 27%, Reduced Outbound freight expense by \$1.4 million, Identification of \$200,000 monthly Out of Territory freight expense, Branch realignment, Reduction in Transportation accessorial expenses by \$500,000, Reduction in parcel freight expense via Banding initiatives and 100 wt pricing, Improve accuracy of product cost in bill of Material and Labor Routings, Working with customers to smooth work flow in the branches, SKU reduction, Late Vendor Penalty program,

DIFFICULTY

Honestly the real difficulty with this project was not the technology itself or the business problems we were trying to solve but prioritizing the initiatives and being able to stay focused on one long enough to get the desired results. The saying is definitely true that "Success breeds Success" Trying to accomplish this with only 3-4 people at any given time is difficult to say the least. As one area saw improvements the floodgates were opened and applications and requests were very abundant. Even now with a lot of successes under our belt some of the difficulties we are seeing is trying to keep up with the improvements and drive even further cost reduction in areas that seem to be at a critical mass already.

Every project has its trials and tribulations but it's the people you work with day in and day out that make the difference. I really have to commend Scott Dworkin, Mike Mohrfeld and Ron Zuccaro for making this project something to be proud of. Their dedication and true spirit of team work has made this a successful project and has had such a positive impact on our organization that I can only say I am proud to have known and worked with them. I would especially like to thank Bill Abington our CFO / President of Operations, and my friend, for funding this project and giving us the support we needed to be successful.

I would also like to thank Information Builders for developing a product that is so versatile and easy to use that anything is possible. I have used several of the other BI toolsets and this one is simply the most cost effective and powerful solution for any endeavor.

