

Safe in the knowledge

Outsourcing logistics is enabling Tier One supplier Key Safety Systems to improve its operational efficiency through economies of scale and a purposeful database, reports **Anthony Coia**



The mandate for Tier One suppliers is largely to provide vehicle manufacturers with the desired service level while keeping a lid on their own costs, which sounds much more straightforward than it is. It often leads them to turn over their logistics management to an outside specialist and return to core competencies.

By outsourcing its logistics to a third party, Tier One supplier Key Safety Systems has added a measure of uniformity to its supply network that is enabling it to benefit from economies of scale. With the assistance of 3PLs, the company is also able to maintain a quality database.

KSS manufactures airbags, seat belts, steering wheels, and other safety-critical components and systems. Its worldwide operations are organised into three regions: North America, Europe, and the Asia-Pacific. KSS operates five plants in the US, six in Mexico, nine in Europe – mostly in Italy and Romania, and two joint-venture plants in China. It plans to launch its own plant in China in June 2008 and hopes to start an operation in India.

Problems of scale

John Begg, Director, Global Logistics, says that in the past each region operated independently: “The regions were not reaching across the water and acting pan-globally. The

problem was that we were not taking advantage of the natural economies of scale that KSS could achieve by pooling its logistics network.”

To achieve such benefits, it needed an active and well-organised data system. “Data drives everything, from the initial value proposition to the final product. Our data was not in a consistent format, so we had to massage it to great lengths to produce discernable information. We needed to know what we were spending, when it occurred, and with which carrier. For example, one mystery was why a particular plant was incurring premium freight. If we could not do an autopsy to determine that; the data was inadequate,” explains Begg.

KSS’ strategy involved promoting a global vision and exercising global advantage. “To realise our goals, we needed to cut out the waste from our supply chain,” says Begg. “We wanted to communise processes where it made sense, establish a database that would hold communised data across the corporation; we needed to move from a reactive mindset to a proactive one.”

Begg says that once KSS determined a baseline for its total logistics costs and established accurate measuring tools, progress would become relatively easy to track.

The problem was that KSS’ existing data system was not robust. The company needed a data repository that could

stand on its own: "Our main objective was two-fold – to have vigorous, usable data, and to gain an insight into trends and 'hiccups', leading to total vision across the supply chain."

Bring on the LSPs

Up to this point, outsourcing logistics had not been a priority. KSS had handled logistics in-house, which was not its core competency. It did not use 3PLs at all in Europe or Asia, and only a limited number in North America. "Once stabilised in North America we had reached a point in the road to shore up our global applications," says Begg.

KSS needed a skilled third party to help it reach its worldwide goals. It wanted 3PLs that would take best practices and establish them uniformly. Begg says that it also wanted 3PLs to have the latitude to take advantage of a region's local indigenous opportunities. For example, Romanian plants could use local drivers to serve Western Europe at lower labour costs.

KSS was beginning to create a greater presence in Asia and was anticipating robust, rapid growth. It was in its best interests to bring in a reliable partner with a global presence to support it throughout this growth phase.



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The company needed a programme that was unique but also built upon a foundation of best practices already proven within the industry. "We also wanted logistics partners, not vendors," says Begg. "We wanted to engage 3PL partners who were willing to live up to what they had pitched to us in their value propositions.

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Role of the 3PL

KSS chose Penske Logistics and Ryder System as its 3PL providers. "They were willing to share the risks with us, which also means that they can share in our successes and future opportunities," says Begg.

In March, Ryder assumed its role in North America and Europe. It performs a full range of logistics services, including transport procurement, network engineering, premium freight management, route management, and, in Europe, ex-works conversion. Converting to ex-works terms means shifting the transport burden from the supplier to KSS. "This works out better because small suppliers do not have as much leverage in the market as KSS would have due to our larger freight spending coupled with our engagement with a 3PL



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partner. This enables us to move into a disciplined logistics network and it removes the variability factor."

Begg says that in North America, Ryder was operational in three months. In Europe, it took six months due to a dearth of robust, usable data and Europe's unique employment rules.

Since Europe and North America are both mature markets, implementation occurred faster than it did in Asia because the infrastructure was largely in place. However, the Asian projects are on smaller scales.

"Asia is not as mature a market and it has been only in the past couple of years that we have experienced growth there. In Asia, although the launch period was much shorter, the project breadth was also somewhat smaller. In fact, Penske was operational within days," says Begg.

In June, Penske Logistics began providing KSS with transport procurement and network analysis and



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engineering. Begg points out that as a growing company in Asia, Penske was also looking for a partner: "In Asia, our network was more independent, and it needed more one-on-one attention. Penske has an office in Shanghai where our Asian headquarters is located – it fits our needs well."

For KSS, implementing 3PL providers created some challenges, one of which was the very aggressive timeline, combined with KSS' substantial growth rate. Begg also points out that the concept of change after doing something for an extended period was unsettling for some. "We encountered pockets of initial resistance and adherence to the old ineffective ways of doing business," he says.

As a whole, however, KSS has fully embraced the 3PLs. "This has accelerated the benefits that we are deriving from the programme," adds Begg. "The support comes from the top of the organisation. To be successful when changing any programme on a global basis you have to have the support of executive management. At KSS, they have the vision and they have fully supported the fundamental changes that have resulted in our supply chain efficiency improvement."

Data and cost improvements

"KSS has now engaged logistics partners who assist it in maintaining a database of clean, relevant information. The results are that we can now make decisions, drive

studies, and track costs on a much more concise and educated basis," says Begg.

Effective cost management is of paramount importance for KSS. "As we dug into our previous network, we unearthed activities that were both prevalent and non-value adding," explains Begg. "Rapidly attacking and changing these practices became a priority. We have done this and in the process strengthened our network."

"Before, we were like a fighter getting knocked from pillar to post not knowing where the punches were coming from. Now we know what we are spending, why we are doing it, and where opportunities lie. The system is exponentially better than it was previously."

Begg says that the remaining task is to educate the relevant personnel on how the programme will work and its benefits, as well as on KSS' and the 3PLs' expectations.

Now KSS has data that it can use and it is taking advantage of economies of scale says Begg: "We have taken costs out of the system and have established communised processes such as RFQs for transportation rates. For freight management, the uniform process is for the plant to work through the 3PL if there is a problem."

Begg says that the company's facilities now operate as a whole rather than as individual islands. KSS has leveraged its resources and streamlined its operations. "For example, Ryder offers a pan-Atlantic approach to premium freight and freight claims. Now, for claims, we use one method instead of 19 freelance methods. In the past, the problem was that a plant in Europe would not provide the same type of claims information as a plant in Mexico, which added to costs," he says.

Supplier matrix in Asia

In Asia, where KSS is expecting significant growth, Begg points out that the ability to do things as efficiently as

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possible right out of the gate is an attractive proposition. "We have recently completed the first phase of our 'plan for every supplier' matrix in Asia, which determines how the

suppliers should move freight by frequency and mode. This will reduce the variability factor significantly as we move more material."

He continues: "That means no more guessing or freelancing. Each supplier has a set plan on how it will move within the KSS Asian network. In the end, this drives out unnecessary costs and makes all aspects of the operation more efficient. Since the inland infrastructure in China is not very robust, it is a valuable plan."

The cost of premium freight has declined, as have the cost per hundredweight and the cost per weighted mile. And in the end, decreasing cost and increasing the quality of service is what improvement programmes are all about. ●●●