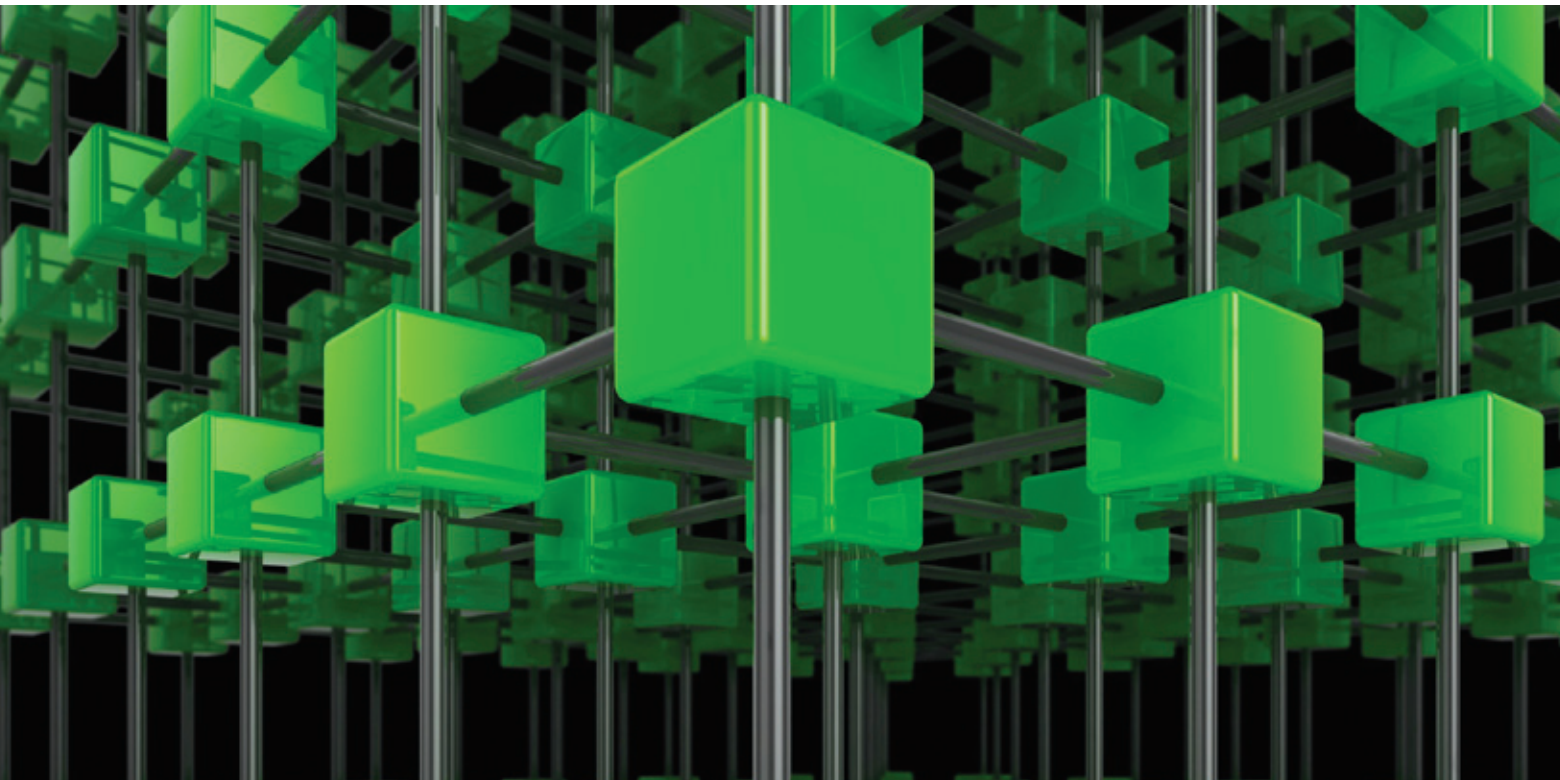


future ready

How installing a more robust WMS helped Lynden International to not only better meet current customer requirements, but position itself for future growth

By Ken Mark



Besides simply solving today's problems, the latest logistics software can also set the stage for future growth. That was the strategy behind Lynden International Logistics Company's (LILCO's) decision to implement Cambar Solutions LLC's WMS (warehouse management system) application in its distribution centres in Toronto, Calgary and Vancouver.

Says Kevin Gillies, LILCO's Calgary-based vice-president: "Overall, since its installation in 2006, the WMS has reduced our annual labour costs by 10 to 15%, total operating costs by 8 to 10%, while improving DC space utilization by about 5%."

As well, by verifying each order before it leaves the dock, the

system reduced shipping errors by 2%, resulting in more perfect orders going out the door. The payback period for the software was 18 to 24 months.

LILCO's initial motivation was to replace its existing WMS software with a more flexible technology. "We also wanted a system that offered access to future upgrades that would enable us to meet our future needs," says Gillies. "Our major concern was meeting ongoing requirements for current healthcare clients, as well as meeting the needs for potential new clients in the sector. Having this in place not only met our current clients' needs, but allowed us to be successful in landing the contract for the Canadian Pharmaceutical Distribution Network in 2008."

The CPDN is a service provider to 19 major pharmaceutical manufacturers supplying products to more than 600 nationwide hospitals across Canada, representing about 80% of all hospitals maintaining accounts with pharmaceutical companies. It is a corporation with five major shareholders consisting of large pharmaceutical producers.

According to the group's Oakville-based vice-president of logistics, Scott Gibson, CPDN handles several thousand SKU's (stock-keeping units) and hundreds of millions in annual sales.

Schematically speaking, LILCO sits in the middle and serves as a 3PL (third-party logistics provider) hub-and-spoke function. It connects the 600 hospitals through the CPDN program's front-end, Web-based ordering system to LILCO's operating system, as well as integrating with the CPDN's 19 member companies.

Unlike conventional wholesalers that buy and sell products and earn profits through price and distribution mark-ups, CPDN does not buy or sell any products. Instead, all products are sold by their members. It is funded by annual membership fees and monthly operating charges. As a result, hospital buyers negotiate product prices directly with individual member-companies and do not pay distribution fees.

The members send the appropriate level of inventory directly to three LILCO DCs based on past sales to the hospitals and forecasts from the CPDN members' sales forces. LILCO receives orders from the hospitals and manages hospital contracts received from members, ensuring pricing accuracy, then picks, packs and ships the appropriate quantity and products directly to the hospitals.

Each order is a consolidation of the various members' products that is individually invoiced and delivered using a stable of couriers and other common carriers, offering temperature-controlled service to most regions.

LILCO also collects payments from hospitals and remits them to the relevant CPDN members using a predetermined payment schedule. As well, LILCO takes care of all reverse logistics, including product returns.

Such an outsourced supply chain arrangement enables manufacturers to save money and eliminate hassles related to operating, staffing and equipping their own DCs and delivery fleets. Hospitals come out ahead as well. "They enjoy one-stop, consolidated ordering, dependable delivery, lower inventory levels and one invoice," says CPDN's Gibson. A report summarizing the environmental benefits – such as reduced energy consumption, greenhouse gas emissions and carbon footprint – is in the works.

The concept may catch on elsewhere. According to Gibson, other countries have shown interest in the model, as it offers producers a method to achieve a lower cost to market.

LILCO spent about a year preparing for the switch that included reviewing proposals from four potential suppliers. Besides increased flexibility, other priorities included a firm that would be a good working partner. Cambar is a WMS software veteran with 25 years of experience.

"Although we have various Fortune 500 clients with up to 50 DCs," says Rick Register, Cambar's North Charleston, S.C.-based

president and COO, "our target market is small and medium-sized companies that are just starting to get involved with WMS technology.

"After users such as LILCO have the system up and working, they have the added capacity available to serve more clients without increasing headcount." Gillies also notes that Cambar's previous pharmaceutical industry experience helped tip the scales in its favour.

After reviewing various vendors for six months and making the decision to move forward with the Cambar WMS, LILCO and Cambar reviewed the project scope and relevant business processes over the next six months before launching the new solution. Thanks to the detailed planning, the implementation was smooth and straightforward with no need to shut down operations during implementation.

According to Register, the pharmaceutical industry must meet regulations requiring comprehensive tracking and traceability, enabling firms to respond quickly to product recalls and the like. As a result, manufacturers must maintain tight control over products at all times in including their trip through the supply chain. There are also strict rules about inventory data security and who is authorized to access the data.

One of the processes that required upgrading was LILCO's ability to manage multiple hold types within the DCs, as well as managing inbound products that require being placed on hold while awaiting disposition. This new WMS includes a new application allowing for classification of damages, product recall, short dated and returns from the manufacturers, customers, etc. This provides ease of traceability and supports auditing functions that are a health-care industry requirement.

The CPDN is just one of the corporate clients using the LILCO DCs – occupying about 20% of the total space in the three facilities. As a result, some of the products, as well as hold items, are not segregated, but are sometimes commingled with those of other LILCO clients.

The WMS makes inventory management clear and transparent. It feeds the corporate database with up-to-date records of all inventory, including hold items and their DC locations. The CPDN program requires that products with the earliest manufacturing dates be shipped out first, i.e. first expiry, first out (FEFO). Since LILCO aggregates products from various manufacturers and ships them to individual hospitals, there must be a reliable product rotation system based on SKU, lot number and expiry date for items from all 19 CPDN members.

The Cambar WMS enables LILCO to pick items in any sequence while properly managing product rotation. It also has the capability to operate paperlessly, however, shipped orders contain paper packing slips and paper invoices to conform to hospital practice.

As part of its change management program, LILCO worked together with Cambar to train "super users" or lead DC employees. Prior to the switchover date, others received initial training as well, continuing training and support from the "super users." It took about three months for everyone to be comfortable with the new system.



"It helped increase employee productivity and satisfaction while building teamwork since they now realize that all DC staff, receivers, put away people, pickers, and checkers need to work together to gain the full benefits on the new WMS solution," says Gillies.

Since the system has the capacity to track performance by monitoring data from the hand-held RF (radio frequency) readers, LILCO can detect patterns in DC operational practices. Incorrect information about bin locations, quantities, lot numbers and expiry dates can now be more easily detected and fixed. If the system detects inefficient techniques during any of the warehouse functions, supervisors can use the data to help employees improve their performance.

As well, the WMS provides automatic checks and balances to monitor bin contents. For example, after the last item has been picked from a bin, it requires employees to confirm that the bin is now empty. In this way, the WMS boosts employees' confidence in the system by assuring them that the information on their RF

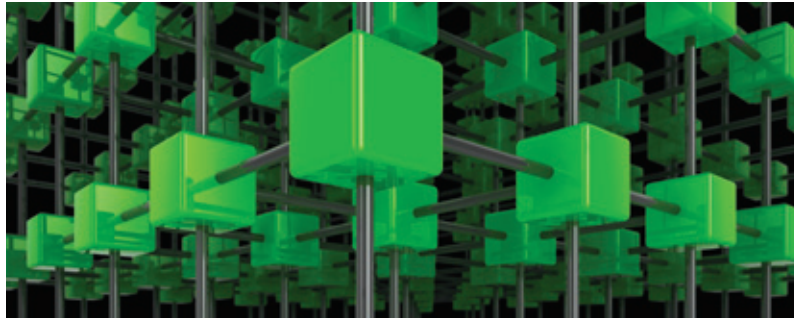
handset screen is accurate and reliable.

Greater accuracy also results in eliminating the need to shut down for inventory counts. "The continuous updating of inventory at the bin level, is essentially an additional cycle count and combined with a defined ABC cycle count process, LILCO no longer shuts down to complete full physical counts unless clients request them," says Gillies.

Cambar's Register amplifies that view. "Typically, shutdowns take place on weekends, requiring firms to pay employees overtime," he says. "And if they have to close down operations on a weekday, no goods get shipped out, causing a backlog of work and customer service issues."

LILCO leveraged the new WMS capabilities to attract new business such as the CPDN. The system has also become a definite advantage when talking with other potential manufacturers looking to outsource their distribution needs. The flow of expected Cambar system updates provides cost-effective solutions to LILCO, enabling it to meet Health Canada's requirements now and in the future.

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