

Case study



REGIONAL HUB ALLOCATION

DAMCO IDENTIFIES SUPPLY CHAIN IMPROVEMENTS FOR A GLOBAL TECHNOLOGY CUSTOMER, USING OUTSOURCED LOGISTICS AND REALLOCATION OF REGIONAL DISTRIBUTION CENTRE HUBS

Big picture analysis by Damco resulted in comparative solutions and tools that help logistics and top management decision-making on warehouse location. Solutions show improved inbound and distribution flows. In addition to more efficient supply chain management, the customer achieves major potential savings on investment and warehousing overheads, and sustained logistics cost savings over time.

ZyXEL, a global network hardware producer with Headquarters in Taiwan, requested support from Damco in assessing the centre of gravity in their European supply chain. The reassessment of their distribution flows was triggered by the acquisition of a site in Germany, which had potential as a regional hub. In addition, ZyXEL was

confronted with the need to reduce existing warehouse operating costs linked to high labour costs in Denmark, and the need for high levels of safety stocks in the Danish DC.

The proposed solution revealed potential benefits of US\$700,000 in logistics cost savings for the first year, with subsequent annual savings of US\$300,000. An additional US\$110,000 saving was identified from changing current warehouse location, obtained from lower inbound freight cost and lower security stock needed.



THE CHALLENGE

ZyXEL was in the process of reviewing their West European distribution centre contract, wanting to optimise their DC locations and distribution costs without jeopardising the level of service to their customers. The existing situation was that the inbound flow from Asia was routed to customers throughout Europe via the DC in Copenhagen. Following the acquisition of a factory in Germany, the company wanted to evaluate the feasibility of converting this into a European hub.

The objectives of the company were to:

- reduce distribution costs without affecting customer service negatively
- review high safety stock levels caused by forecast procedures and long lead times for transshipment through Copenhagen
- evaluate conversion of the German factory to a European DC
- avoid high warehouse operating costs

THE SOLUTION

Damco Supply Chain Development (SCD) proposed a holistic approach, including soft aspects such as ocean & air connectivity, transit time, transportation cost, warehouse operating cost, and other business needs of the customer.

We provided:

- a 'Make or Buy' analysis of warehousing
- analysis of the customer demand flow per site
- the Supply Chain Guru tool application to simulate different possible future demand scenarios
- a tailor-made Request for Quotation (RFQ) template to compare total logistic costs per package, per Logistic Service Provider invited in a tender

Regional Hub Allocation

Damco's proposed solution is tailor-made to the needs of ZyXEL. The RFQ template simplifies the process of comparing their suppliers' total logistics costs per package, and supports the management decision-making process towards implementing a new solution. We identified the centre of gravity, and assessed the feasibility of using a converted German site. We also provided simulated alternatives, linked to future possible outbound flows from the warehouse to ZyXEL customers.

THE RESULT

The results of the insourced or outsourced warehouse analysis enabled the customer to assess the savings obtainable with the outsource model, which they used to guide top management decisions on the usage of the newly acquired buildings in Germany. With the proposed DC activity, a further annual logistics cost saving of US\$110,000 was estimated as a result of reduced investment, inbound transportation, and inventory costs. Using the outsource model, savings of approximately US\$700,000 in year 1 and US\$300,000 in the following years are considered obtainable – compared to an insourced model using German facilities.

THE CUSTOMER

ZyXEL has been one of the world's leading suppliers of networking products for over 20 years. The company is the first choice of many tier-one service providers, connecting more than 400,000 small- and medium-sized businesses, and upwards of 70 million end-users around the globe.



About Damco

Damco is one of the world's leading third party logistics providers specialising in customised freight forwarding and supply chain solutions. The company has 11,000+ employees in more than 300 offices around the world and a global presence in about 100 countries. In 2013, Damco had a net turnover of USD 3.2 billion, managed 2.8 million TEU of ocean freight and supply chain management volumes and air freighted more than 225,000 tonnes. Damco is part of the Maersk Group.