

Success Story

PostLogistics

New business model with SAP Retail in only 4 months



IMG introduces flexible software base for new business areas with the logistics service provider

To implement new business models the highest level of flexibility is required by the entire company: that means the employees, the business processes and the IT infrastructure. The Swiss logistics service provider PostLogistics has succeeded in mastering this triple jump in only a few months. The technical nerve centre is mySAP ERP 470 Retail which was implemented with the help of consultants from The Information Management Group (IMG).

Under the brand PostLogistics

Swiss Post has combined their entire logistics competency. Access to logistical services is thus made easier for the customer because he has a contact for all logistical matters. That ranges from feather light packages right up to car loads weighing tons, from the dispatch of individual parcels to complex special solutions, from data handling to goods management. Approx 5500 employees in over one hundred locations are at work for the customers daily.

You can find more information at www.postlogistics.ch

PostLogistics
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This is what you would call genuine Swiss precision work: PostLogistics took only four months to bring the vision for a new business model with the name «Prolog» into reality. «Everything had to happen incredibly quickly. We could not allow any delays with the project», recalls Armin von Atzigen, Project Manager for the Prolog project at PostLogistics, the logistics sector of Swiss Post. What has happened in four months? At the request of a customer – well-known brand manufacturer Procter & Gamble – the business area was investigated within a very short period of time as to whether it makes economic sense to offer new logistics services. PostLogistics thus becomes a goods owner and distributes products via their goods distribution centres to supermarket chains and wholesalers. «That was a novelty for us», says von Atzigen.

In order to be able to complete the new business model, it became necessary to rethink the work processes. The organisation and processes had to be brought in line accordingly and it was necessary to define communication with customers and purchasers of the goods. The logistics company chose consulting firm

The Information Management Group (IMG) to be their consultancy and implementation partner. «Our consultants worked on the project from the first design phase – the blueprint – right up to start-up», explains Victor Leuenberger, IMG project manager.

«We come from the classic logistics service business: We store goods, commission them, repack them as required and then deliver them», von Atzigen explains the traditional business of PostLogistics. The requirements of job execution and especially invoicing had not been particularly very high. However, with the new business sector, the requirements increased dramatically: As goods owner, PostLogistics took responsibility for the entire handling of orders and settlement. Procter & Gamble supplies major customers throughout Switzerland directly. For economic reasons the consumer goods manufacturer looked for proximity to a logistics service provider to supply smaller chains. For Procter & Gamble, PostLogistics is a major customer who handles distribution to smaller customers throughout Switzerland.

«In addition it is not economical for smaller chains to order directly with Procter & Gamble because the quantities are usually smaller, the prices are correspondingly high and leave barely any margin», explains von Atzigen. This is where the competence of PostLogistics comes in: «We practically function as a middleman. We bundle the orders of the smaller markets and wholesalers together so that a virtual major customer is created. As a result we are in a position to order larger quantities and negotiate more attractive prices», explains von Atzigen. They make their own margin by adding a logistics surcharge and for services such as incoming goods, warehousing, commissioning and transport. The logistics company's services also cover special requirements like printing labels, price markings, repacking, packing into batches, producing displays, shrinking foil or enclosing flyers.

Cost prices on the basis of larger purchasing volumes are established between Procter & Gamble and the consumer market. PostLogistics then negotiates with the purchasers of the goods over the logistics surcharge which depends on quantity, distance and order/delivery frequency. «The purchasers order



their goods with us by fax or electronic data exchange (EDI) and we take the daily sales and stocks from SAP and send them by EDI to Proctor & Gamble, who manage our supplies and our stock», von Atzigen explains the Vendor Managed Inventory (VMI) model. By means of VMI the so-called bullwhip effect in the supply chain is eliminated. This phenomenon has been known since the 1960s: Although the market demand is constant, major customers order – the stage after production – very different quantities. As soon as procurement becomes multi-level – from the end user via the retailer and wholesaler to the producer – the need of the customer is distorted over the individual order stages and the ordering by the wholesaler to the producer no longer corresponds to the original requirement of the end customer. This results in excessive stocks of goods over the entire supply chain. By avoiding the bullwhip effect, in contrast to the classic provision models, VMI ensures lower stocks of goods in the supply chain.

Currently PostLogistics stocks goods to the value of around six to eight million Swiss francs, including detergent and cosmetics, paper products like nappies and perishable goods like crisps. The warehouse is turned over or «rotated» as they say in specialist jargon approximately 17 times per year – i.e. emptied completely and refilled again. 14 lorries deliver goods to the warehouse every day. A further requirement was that the warehouse must be able to «breathe» – meaning varying volumes of good are stocked in the warehouse depending on planned promotions and seasonal fluctuations and categories.

Today considerably more data must be recorded by the new processes and monitoring stocks of goods and managing transport have become more demanding. Likewise, requirements for reporting and analyzing stock figures have increased on the part of PostLogistics, as has service for Proctor & Gamble. These include stock figures such as turnover rate, stock availability levels, daily sales figures and inventories as well as a monthly sales report.

And time became limited. On the basis of a detailed business plan which PostLogistics Management submitted to the Board of



Directors at the end of 2005, the board gave the green light for the new business model. The reason being that after approximately two years, the investments in the new business should already be paid off. Furthermore it provides enormous strategic potential. From the beginning of April 2006 the first Proctor & Gamble products will be delivered to consumer markets. Rapid trading was now the order of the day: From the point of view of PostLogistics two options remained after the initial analysis of the future business processes: «We had the choice to extensively upgrade the Tramper logistics system for order processing and invoicing or to purchase a new system», says von Atzigen.

Management finally decided to implement a system based on SAP. Solutions from the Baden town, Walldorf had been used by PostLogistics for a long time in the finance, controlling and human resources sectors. In addition it seemed to the logistics company to be most suitable as a platform for the development of the business model – because it should not remain with Proctor & Gamble. «Since we are a neutral service provider and do not belong to any retailer or manufacturer, we are a more interesting partner for supermarket chains and brand



producers», says von Atzigen confidently. The SAP software offers the company flexibility to be able to illustrate very quickly processes of other customers in the future. He is certain the old system could never have provided these opportunities for expansion. Another alternative was ruled out due to the tight time frame.

The SAP system manages all processes with regard to order processing and invoicing. An internal IT employee is in charge of it and the actual computer centre operation including SAP basis support is carried out by an external service provider. In the area of warehouse management PostLogistics initially decided to stay with the Tramer logistics system: «In view of the tight time frame it seemed sensible not to change the processes in the warehouse at first», explains von Atzigen. In order to always keep data exchange current between the prominent SAP system and the stock management, around a dozen interfaces had to be developed and tested in a very short space of time.

In addition, the IMG consultants installed a so-called «stock alignment cockpit». This is an add-on for mySAP ERP which was developed by IMG and enables inventories to be checked and synchronized between two systems. «The tool is enormously helpful, especially in the start-up phase, for regularly checking whether the interfaces function properly and whether quantities were entered correctly», explains IMG consultant Leuenberger. The Cockpit compares stocks from the warehouse system and the SAP ordering system. Using SAP intermediate documents (Idocs) Tramer sends the stock inventory to SAP daily. By means of traffic light functions it indicates whether everything is in the green area or whether discrepancies have occurred which are then resolved automatically or manually.

Not even four weeks after start-up project manager von Atzigen is completely satisfied. «We have made a precision landing», he states. The tight time frame has been a challenge – in particular to develop the necessary SAP know-how – but has also provided great opportunities: Quick decisions were needed and the implementation of the software was very near standard. «The logistics experts at IMG helped us to create a blueprint», continues von Atzigen. On the basis of an initial workshop, the consultants defined the entire future target processes which the departments then adopted. Here the proven project method «PROMET®», which IMG developed in close cooperation with the renowned St.Gallen University, was used. When structuring the new processes, the consultants always made sure that no changes in the software would become necessary. «We would have had to justify each change economically», explains von Atzigen. «The expertise of IMG employees, which they have acquired from similar projects, was noticeable immediately and that was our guarantee that we could complete the project in only four months».