



Rome Logistics Group of Companies

509 Mill Street

Second Floor Suite #203

Kitchener, ON, N2G2Y5

By

Peter Dann

Derrick Stroebel

Logistics Outsourcing to ROME: A Case Study

“Motor vehicles and parts account for a larger share of intraregional trade in North America than any product sector. Three-way auto trade in 2003 was \$125 billion, representing 20 percent of total trade among NAFTA partners. Between 1993 and 2003, the volume of NAFTA auto trade almost doubled, accounting for 18 percent of the total growth in NAFTA trade over this period.

Much of the trade increase can be attributed to specialization, as parts manufacturers and assembly plants have been reoriented to take advantage of economies of scale. As a result, supply lines for finished vehicles routinely cross national boundaries, as parts and assembly work is performed wherever it is most efficient.”¹

Jeffrey J. Schott, Congressional Testimony, Peterson Institute for International Economics

The following case illustrates how a leading automotive original equipment manufacturer (OEM) addressed this changing environment through a partnership with Rome. By capitalizing on the strengths experiences of Rome, this auto parts manufacturer was able to successfully integrate into this cross-border supply chain and capitalize on the strengths of a diverse and widespread supplier and customer base.

¹ <http://www.iie.com/publications/testimony/testimony.cfm?ResearchID=612>

Part of the Global Supply Chain

The automotive industry has experienced rapid change over the past twenty years, especially since the adoption of the North American Free Trade Agreement. This fundamental change has caused significant change in terms of not only who the suppliers are, but where they are located. This changing environment has been a core challenge to many firms within the automotive sector at all levels in the supply chain. To help manage and adapt to this change, many auto parts manufacturers have sought and secured the services of third party logistics (3pl) firms.

The suppliers and purchasers of a leading Ontario tier one auto supplier were becoming increasingly dispersed not only within the Canadian boundaries, but were now working across borders within the North American marketplace. Their operations were no longer confined to Ontario, they were now producing within the United States and their suppliers were now scattered from a wide range of locales including Washington state, Ontario, Florida, and a variety of other states and provinces. These changes greatly complicated their logistics needs and they were finding it difficult to not only achieve competitive pricing, but the service requirements this dynamic sector required. To help facilitate and manage this new supply chain, this automotive supplier partnered with Rome to formulate a solution.

The New Playing Field: From Across Provinces to Across Borders

“Today, the North American automotive industry is more integrated than any other sector of the regional economy.”

Much of the automotive industry was already operating across borders, but these operations were regional operations with largely, regional suppliers. After NAFTA was enacted, there was a shift as major companies were no longer confined to national boundaries and competition from countries such as Japan emerged as they began to set-up operations in the North American marketplace. Automotive manufacturers had to rely less on local suppliers and could now source product from anywhere in North America; this was true upstream as well for tier one suppliers who could now source anywhere for tier two suppliers and so forth. What resulted was an exit in the industry of weak players and as previously mentioned, specialization occurred.

This leading tier one supplier was not immune to these effects. After the opening of the borders, competition increased within the industry and as a result of specialization, companies now began sourcing their supplies from the providers which matched their needs most specifically and not those who were in close proximity. They sourced their product from the best suppliers with the best price; they now also had to supply production lines across North America shipping product to and from areas they had never previously considered. This created a logistics challenge as they had little experience with the many new shipping lanes

constantly being evaluated throughout all of North America. This lack of experience resulted in a negative impact on their overall business as costs increased and service declined.

The primary problem was that they were not equipped internally to manage shipping from such a wide range of locales. They didn't know how to answer questions such as which carriers to use, how much freight should cost, and what method of transportation is required to satisfy their needs. Their supply chain was not operating as efficiently as it should be. There was also a coordination issue between the different departments, even between personnel in the same department. Without this coordination there was confusion with regard to allocation of responsibilities, lead times, placement of orders, and created overall problems with production scheduling. They began to realize the impact of this weakness and they decided to seek expertise and advice from logistics professionals who were external from the company in the hopes that it would prove beneficial to the overall business.

A New Beginning

The auto parts manufacturer began to seek out help from various third party logistics companies of which Rome was one of them. It started out where the company would tender load bids to see who could move the freight the cheapest. At this point the freight was being moved through the cheapest bid which at first glance would indicate that cost would be reduced, but it wasn't. The problem with this method was that there was a lack of consistency in terms of pricing and service from these different providers. Rome stood out to management not because they were cheapest in every instance, but they provided a consistent service that

met expectations. Rome went above the competition to provide different service options and provided a transparent breakdown of different scenarios for each shipment. Although it is possible to be the cheapest every time, it wasn't always the best option for guaranteed schedules and lean manufacturing. Communicating the service requirements correctly was important because consistency provided predictability; predictability ensured that production lines flowed smoothly which was critical as production facilities were adopting a more lean production philosophy.

What developed were the first steps towards a long-term partnership between the two firms. The parts manufacturer realized the potential that a more deep and embedded partnership could offer. What began to happen was similar to what was happening in other parts of the industry: Rome was no longer outside the supply chain looking in, but rather Rome was integrated into the supply chain managing more than just dispatching trucks.

What emerged was that the logistics of this firm became essentially outsourced from their internal operations. The responsibility for coordination, acquisition of transportation providers, and other areas of the logistical function were now delegated to Rome. Coordination between personnel and departments regarding logistics was now streamlined and effective now that there was a central person in charge of this. This method was regarded as being lower cost and more efficient than what could be achieved internally. Set rates were applied and reviewed regularly to facilitate effective budgeting and predictability; there was no longer a need to shop around anymore. Their logistics has become predictable and consistent.

A Bump in the Road

As in any relationship, there are ups and downs that occur. To say everything works without a hitch every time would be a lie. Given enough time, problems will occur and what distinguishes Rome from other providers is their ability to meet and effectively address these challenges as they occur. One such instance occurred when a load of moisture sensitive product for this parts manufacturer suffered damage while in transit.

This particular load was booked with a partner carrier who had been previously reliable in many instances but there always the potential for human error. The load was sensitive to the elements and could not be used if exposed to water. What had happened is the carrier's driver tarped the load improperly and the freight was exposed and rendered useless resulting in tens of thousands of dollars in damage. Although this might have seemed like a major wedge within the partnership, what followed resulted in a stronger bond between the two companies.

Rather than attempt to dodge responsibility, Rome accepted it and took the lead to rectify the situation. Rome handled the entire claims process from start to finish in the attempt to reduce the effects on the client. This included immediately arranging for another shipment to be delivered, meeting with claims adjusters, re-imbusement for the product, and being proactive with strategies to avoid the problem in the future. Problems happen, but how they're handled when they do is what sets Rome apart.

A Bright Future Ahead

Every manufacturing company will have its own system in place to manage their supply chain. It is often difficult to decide to implement change in a system they may work just fine on the surface. Whether this Tier One Automotive Supplier intended to rethink their logistics strategy or not, the outcome is effectively the same: a review and overhaul of the supply chain took place and an increased ability to focus on core business was the outcome. This means better ROI, improved customer experience, increased competitiveness, and an overall increase in efficiency and productivity. This Tier One Automotive Supplier continues to reap the benefits of this, and is working hand in hand with Rome to analyze the supply chain and tweak efficiencies further as the market fluctuates.