

CASE STUDY

Coty Inc.

Transportation Planning and Optimization Results in \$1 Million Annual Savings and Improved Customer Service

Challenge

Annual transportation spending that far exceeded industry averages pressured Coty, a leading personal care and cosmetics manufacturer, to evaluate a business case to implement a new comprehensive transportation management strategy.

Solution

Developed a holistic strategy for best practices and then created best-in-class transportation capabilities by:

- Designing a new North American organization for multi-national transportation planning
- Reengineering all transportation-related business processes and procedures
- Implementing improved systems to support worldwide distribution
- Establishing change management and training programs to ensure adoption

Benefits

With the new organization, processes, and systems in place, Coty anticipates gross savings of at least 6%, or over \$1 million per year. Transportation management is now a model for best practice evaluation and implementation at Coty. With this new strategy in place, Coty has much greater control and visibility of its transportation processes and can better manage costs and ongoing improvement initiatives.

“Clarkston Consulting led our team through each and every step of our transportation management business case resulting in a world-class solution with high-impact business results.”

Mark Newberry,
VP Logistics and Execution,
Coty US

Introduction

Transportation management has become a strict discipline among leading consumer products manufacturers over the last 10 years. Improvements in processes and technologies have led to significant cost savings, ranging from 10% to 35% cost reductions. Leading providers of transportation management software have made significant investments in the last 10 years to incorporate enterprise data and integration technologies to optimize transportation functions. Technologies that leverage industry best practices and improve management visibility into shipping activities are revealing opportunities for improved efficiencies and cost savings.

Consumer products and other manufacturers have seen that re-engineering business processes to incorporate emerging distribution and procurement technologies for many goods across the enterprise can have a dramatic and positive effect on the business—often, simultaneously decreasing costs and increasing service.

The primary driver of cost savings has been the consolidation and rationalization of freight carriers and renegotiated contracts with these providers. Many consumer products companies have not traditionally focused on modeling, optimizing, and realizing dramatic cost savings from these transportation activities.

Further, the industry has expanded its focus on freight activities and cost reductions to drive better customer service and increase flexibility. The removal of even one shipping point within an entire transportation network, for example, results in improved cycle times, less handling, and reduced paperwork or other handling errors. While the removal of only one shipping point or step would be minimal, when extrapolated across all inbound and outbound transportation, significant improvements can be anticipated.

As the consumer products industry continues to evolve towards collaboration and tighter integration with key large customers, managing transportation is becoming increasingly critical. While the freight forwarders have increased their own ability to collaborate, the customers procuring their services must have the proper procedures and policies in place to take advantage of these new services.

Currently, a great deal of information held by carriers is not being fully utilized by consumer products manufacturers, and certainly not finding its way into the overall customer service effort, leading to some inefficiencies when it comes to meeting large retailer requirements. While many manufacturers are implementing customer scorecards to identify these issues, true improvements regarding freight for the proverbial “last mile” of customer service cannot be achieved until a proper re-alignment of transportation activities are undertaken.

Business Challenge

Coty is a \$1 billion global consumer products marketing, manufacturing, and distribution company specializing in perfumes, lotions, creams, and cosmetics. As Coty speeds to market with innovative fragrances, eye-popping marketing campaigns, and red hot celebrity tie-ins, transporting product from the distribution dock door to retail store shelves may not seem the “sexiest” part of the whole process. But when transportation costs account for nearly 4% of sales, or a staggering \$22 million line item, it certainly grabs as much attention internally as J.Lo’s newest fragrance does among starry-eyed fans. Learning that these costs were benchmarking approximately 25% above industry peers, Coty turned to Clarkston Consulting for ways to reduce these costs.

Clarkston’s mission was to help Coty achieve best-in-class transportation capability by:

- Targeting cost savings through process improvements
- Improving negotiating capabilities
- Providing better visibility to transportation data

This initiative was executed using a three-pronged project approach: organization, process, and technology. Once a function shared by many groups within logistics, Coty needed to identify one and only one clear organizational owner with overall transportation accountability. This new organizational design would be responsible for all transportation planning (inbound, outbound, domestic, and international) and would need new processes for managing all functions of transportation logistics. With new processes in place, this organization would benefit from the efficiencies supported by a best-in-class transportation management system.

Building the Case for Change

In making the decision to invest over \$1 million in transportation improvements, Coty first needed to build a business case that showed measurable return for its investment. Clarkston was engaged to examine its current state business model to uncover opportunity areas that could be translated to cost savings. The current state investigation included four key areas of interest:

- 1) Transportation procurement
- 2) Planning and execution
- 3) Management (organization structure, responsibilities, accountabilities)
- 4) Technology landscape

Transportation procurement encompasses carrier relationships, contract negotiations, and carrier strategies. Clarkston helped facilitate conversations with each of Coty's carriers to better understand the perceived value provided by each. Through this discovery, Coty gained a better view of how it buys transportation services in comparison to its peer groups. Coty and its carriers were challenged to consider rate structures, service levels, consolidation opportunities, and contract terms. These discussions helped shape future carrier strategies and identified areas of improvement.

Planning and execution topics included consolidation, optimization, documentation, performance visibility, and process ownership. By mapping current state processes, Coty and Clarkston were able to identify where manual processes and multiple process owners were causing gaps and breakdowns. For example, shipping requirements were not consistently being factored into production plans. This communication gap was fostered by lack of singular process ownership, leaving managers to guess who might have the information needed to adjust production plans. Similar planning and execution topics revealed that process alignment would be necessary to create seamless activities with clear points of responsibility and accountability.

Coty's organization structure coincided with its process alignment. The three primary areas of transportation spend, outside suppliers, inbound freight, and outbound freight, were being managed by separate parties within the supply chain organization. Clarkston's current state

study confirmed that these parties were not consistently sharing information or looking for synergies between their functions in the areas of transportation. This learning contributed to Coty's need to create one transportation management organization with overall responsibility for all transportation functions in North America.

When investigating Coty's transportation data, Clarkston found that the existing transportation logistics system offered very little functionality to support best practices for transportation optimization. In fact, six different systems were sharing data that all contributed to the transportation process. Besides the lack of integration between these systems, Coty management lacked the visibility required to make timely and accurate decisions to improve transportation operations. And while the previous system offered some functionality to help in this regard, most of it had not been implemented and would otherwise have not been very effective without significant organizational and process improvements.

Collecting evidence in each of these four areas, Coty and Clarkston began to build a case for change. To support this case, detailed financial analysis was conducted to reveal areas of opportunity that would impact the bottom line. Freight spend trends indicated a growing base of transportation costs, escalating as sales grew. Examining these trends, the team could forecast anticipated costs aligned to forecast sales growth. Comparing these costs to industry data, and estimating potential savings from to-be designs, the project quickly started to show a return in line with Coty's capital investment requirements. Final estimates showed a 6-8% cost savings from a \$1.4 million investment, with a five-year Internal Rate of Return of nearly 40%.

Business Solution

Clarkston and Coty designed a new organization for inbound, outbound, domestic, and international transportation planning; re-engineered business processes; and acted as the program manager for the software systems implementation that included Manugistics Transport, Freight Pay, and Delivery Management modules. The project also included a change management effort, including end-user training, to ensure adoption and sustained value.

The new transportation management organization and supporting processes and systems allow Coty to better control transportation costs by greatly increasing visibility to key operational metrics. In addition, the system enables Coty to exploit opportunities to optimize their freight movements.

A key component of the project was building interfaces from and to Coty’s legacy sales order, purchase order, warehouse management, and accounting systems. These interfaces allowed data to only be maintained in one system and then flowed in seamlessly to other systems as required.

The project followed a strict methodology to ensure the transportation planning engine was tuned appropriately to create the optimum freight plan. A large-scale testing effort was also part of the project, using real-life data to ensure the system would work with Coty’s business scenarios.

Using newly available information from the software, Clarkston re-engineered the carrier invoice approval business process and captured additional savings. With Coty’s new capabilities, the carrier’s invoices will only be paid when they can be matched to a planned freight movement, at the correct rate, and the carrier has supplied an electronic proof of delivery via EDI.

Business Benefits

Coty is now fully operational in phase one of its Transportation Transformation project. Managed under one organization with full accountability to the logistics organization, the new transportation processes and systems are rapidly driving costs from the bottom line.

The largest benefit Coty first realized was in the area of transportation procurement. With improved visibility into its transportation needs and spending, Coty could immediately improve its negotiating position with its carriers. Additionally, load consolidation and backhaul optimization quickly removed costs by improving efficiencies in load tendering. And finally, improved visibility into freight requirements helped Coty reduce its expedited freight, reducing its spend on premium rates to meet customer service levels. Coty will continue to measure the project benefits with regular checkpoints and process reviews to ensure process and technology adoption.

Transportation is now a model for best practices at Coty. Under one organization, Coty has much greater control and visibility of its transportation processes and can better manage costs and ongoing improvement initiatives. With a greater understanding of its transportation needs and fully optimized route planning, Coty can better negotiate carrier contracts. With these improvements in place, Coty anticipates gross savings of at least 6%, or over \$1 million per year. At this rate, Coty’s \$1.4 million capital investment in the new transportation organization, processes, and technology will pay for itself in less than two years.

Table I. Financial Summary

Forecasted Annual Transportation Spend	\$23.5MM
Investment In Project	\$1.4MM
Number of Months to Complete Project	7 months
Estimated Annual Savings	\$1.4MM
Years to Payback	> 2 years
Estimated Five-Year Return	\$8MM
Five Year Internal Rate of Return	39%

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